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APPENDIX

1. MEASURES TO IMPROVE AND SIMPLIFY THE PERSONAL INCOME TAX SYSTEM

The 1998 reform of the personal income tax system, the principal application details of which were made public in the March 25, 1997 Budget Speech, was intended to reduce personal income tax, improve fairness for taxpayers who take little advantage of tax preferences, increase tax assistance for low-income workers and simplify the taxation system.

A simplified tax system was introduced to make the taxation system fairer for taxpayers who do not make much use of tax preferences. Essentially, this system offers taxpayers the possibility of claiming a flat amount instead of numerous deductions and non-refundable tax credits. The flat amount—$2 780 in 2002, converted at the rate of 20%—results in a tax reduction of $556.

The simplified tax system is also characterized by the possibility for taxpayers to transfer to their spouse the portion of their non-refundable tax credits that cannot be used to reduce their income tax payable, provided their spouse also calculates his or her income tax payable according to the rules of the simplified tax system.

It is currently advantageous for over 80% of taxpayers to choose the simplified tax system. Taxpayers with a high level of tax expenditures can, however, continue to use the general tax system.

Moreover, to increase tax assistance for low-income workers and simplify the taxation system, major changes have been made to the calculation of various tax credits reduced by income. These include the tax credits for a person living alone, with respect to age and for retirement income, the tax reduction in respect of families and the Québec sales tax (QST) credit. In particular, these changes have led to the standardization of reduction thresholds and, with priority being given to the notion of family income, to the standardization of the various concepts of income used to determine the amount of these tax credits.

By allowing couples in which both spouses opt for the simplified tax system to take full advantage of their non-refundable tax credits, through the transfer measure respecting the unused portion of these credits, and by tying the tax assistance of Québec households to family income, the reform of the personal income tax system recognizes the importance of the mutual support partners in a couple provide one another.

Various changes will be made to the personal income tax system to further improve the system for persons living as a couple and to enable still more taxpayers to take advantage of the benefits of the simplified tax system.

1.1 Transfer of non-refundable tax credits from one spouse to the other

Under the current tax legislation, individuals who calculate their income tax payable according to the rules of the general tax system may claim, if they support their spouse, a non-refundable tax credit calculated on the amount of $6 060 for recognized essential needs, subject to automatic indexation. The amount for recognized essential needs, which is reduced by the spouse's income, is converted into a tax credit at the rate of 20%. However, for the purpose of the application of this tax credit, the spouse's income can be reduced by the amounts which are deductible in the calculation of taxable income under the simplified tax system, thereby ensuring concordance between the two tax systems.

Moreover, where the spouse of an individual who opts for the general tax system has a severe and prolonged mental or physical impairment and cannot use all of the tax credit for the impairment to reduce his or her income tax otherwise payable, the unused portion of the tax credit may be transferred to the individual.

Thus, contrary to the situation under the simplified tax system, the tax credit for an impairment is the only tax credit that can be transferred to spouses filing under the general tax system.

However, certain non-refundable tax credits can be shared between spouses under both tax systems. This is the case, notably, with the tax credits with respect to age and for retirement income, which are determined by taking into account the age and eligible income of each of the spouses, the tax credit for dependent children, where the children are dependants of both spouses, and the tax reduction in respect of families.

With a view to further improving the taxation system for persons living as a couple and to making it easier for them to determine which of the two tax systems is more to their advantage, the tax credit for spouses and the transfer of the unused portion of the tax credit for a spouse's impairment will be replaced, as of the 2003 taxation year, by a mechanism for the transfer of the unused portion of non-refundable tax credits from one spouse to the other, regardless of whether the individual and his or her spouse calculate their respective income tax payable under the general or the simplified tax system.

Furthermore, in the event of the death of one of the partners in a couple, the tax situation of persons living as a couple that prevailed in the taxation year preceding that in which the death occurs will be maintained, as this new transfer mechanism will also apply to the calculation of the income tax payable by each of the partners for the taxation year of the death.

❑ Transfer mechanism between spouses

The tax legislation will be amended to allow individuals to deduct, in the calculation of their income tax otherwise payable for a given taxation year, the portion of non-refundable tax credits—other than that attributable to the deduction for alternative minimum tax (AMT) carried forward—which cannot be used to reduce, for the year, the income tax otherwise payable by their eligible spouse for the year.

For the purpose of the application of this measure, an individual's "eligible spouse" for a given taxation year refers to any of the following persons:

— the person who is the individual's spouse at the end of the year and who, at that time, is not living apart from the individual;

— in the case of an individual who does not have a spouse at the end of the year, the last person to be the individual's spouse during the year, where that person dies during the year and, at the time of his or her death, is the individual's spouse and is not living apart from the individual;

— in the case of an individual who dies during the year, the person who is his or her spouse at the time of the individual's death, unless that person is living apart from the individual at the time or is the spouse of another individual at the end of the year or, where that person dies in the year, at the time of his or her death;

— in the case of an individual who dies during the year and who does not have a spouse at the time of his or her death, the last person to be the individual's spouse during the year, where that person dies during the year and, at the time of his or her death, is the individual's spouse and is not living apart from the individual.

In this regard, a person will be considered to be living apart from an individual at a given time in a taxation year only if he or she is living apart from the individual at that time because of the breakdown of their union and if the separation lasts for a period of at least 90 days that includes that time.

In addition, considering that it is possible, for the purpose of the application of the tax legislation, for an individual to have two spouses at the same time, since "spouse" refers to both legally married and common-law spouses, an individual will be presumed to have only one eligible spouse for a given taxation year, and to be the eligible spouse of that person alone for that year. Should more than one individual take advantage of the transfer mechanism regarding the same person for a given taxation year, the Minister of Revenue will designate which of the individuals is the person's eligible spouse.

❑ Application details

• Tax credits transferable after a death

Under the tax legislation, the income of an individual for the taxation year of his or her death must be reported by the liquidator of the succession. As a rule, all of the income earned by the individual up to the date of death must be indicated in a return commonly referred to as the "principal income tax return". However, for certain types of income, the liquidator of the succession can decide to file one or more separate income tax returns.

Where an individual's eligible spouse for a given taxation year is a person who died during the year, only the portion of the non-refundable tax credits—other than that attributable to the deduction for AMT carried forward—which cannot be used to reduce the person's income tax otherwise payable for the year, as determined in the principal income tax return to be filed for that year, can be transferred to the individual.

Similarly, the deduction respecting the transfer of non-refundable tax credits from one spouse to the other may be claimed on behalf of an individual in the year of his or her death only in the calculation of the individual's income tax otherwise payable, as established in the principal income tax return filed for that year.

• Individuals residing outside Canada throughout a year

Individuals who do not reside in Canada at any time during a taxation year and who, during that year or a previous taxation year, are, among other things, employed in Québec or carry on a business there, will be able to claim the deduction respecting the transfer of non-refundable tax credits from one spouse to the other, provided all or almost all of their income for the year is included in the calculation of their taxable income earned in Canada for that year.

Individuals who fulfil this condition will be able to deduct, in the calculation of their income tax otherwise payable for the year, the portion of the deduction respecting the transfer of non-refundable tax credits from one spouse to the other, as represented by the ratio—a maximum of 1—between their income earned in Québec and their income earned in Canada.

• Individuals who reside in Canada for part of a year

The following rules for determining the amount of the deduction respecting the transfer of non-refundable tax credits from one spouse to the other apply to individuals who reside in Canada for only part of a taxation year:

— For any period throughout which an individual resides in Canada during a year, the individual may claim an amount equal to the portion of the non-refundable tax credits—other than that attributable to the deduction for AMT carried forward—which cannot be used to reduce the income tax otherwise payable by the individual's eligible spouse for the year, represented by the ratio between the number of days in the period and the number of days in the year.

— For a period in the year during which the individual resides outside Canada, the deductible amount must be calculated as if the period represented an entire taxation year.

However, the amount that the individual may deduct for the year cannot exceed the amount that would be deductible in this regard were the individual to reside in Canada throughout the year.

- **Individuals residing in Canada who must prorate their income tax payable**

Individuals who reside in Québec and who carry on a business in Canada, outside Québec, as well as those who reside in Canada, outside Québec, and who carry on a business in Québec, must do a prorate calculation to determine their income tax payable under certain provisions of the tax legislation.

For the purpose of calculating the deduction respecting the transfer of non-refundable tax credits from one spouse to the other, such individuals must apply to the portion of the non-refundable tax credits—other than that attributable to the deduction for AMT carried forward—which cannot be used to reduce the income tax otherwise payable by their eligible spouse for a given taxation year, the same ratio used to determine their income tax payable for the year.

- **Individuals who go bankrupt during a year**

Under the tax legislation, individuals who go bankrupt during a calendar year are deemed to have two taxation years during that calendar year: the first one extending from January 1 to the day before the bankruptcy, and the second from the day of the bankruptcy to December 31.

For the purpose of calculating the deduction respecting the transfer of non-refundable tax credits from one spouse to the other, individuals whose eligible spouse goes bankrupt during a calendar year will be able to take into account all of the portion of the non-refundable tax credits—other than that attributable to the deduction for AMT carried forward—which cannot be used to reduce the income tax otherwise payable by their spouse for each of the taxation years included in the calendar year.

Individuals who go bankrupt during a calendar year will be able to claim the deduction respecting the transfer of non-refundable tax credits from one spouse to the other only in the calculation of their income tax otherwise payable for the taxation year beginning on the day of their bankruptcy.

- **Order of application of non-refundable tax credits**

Individuals will be able to claim the deduction respecting the transfer of non-refundable tax credits from one spouse to the other once all other non-refundable credits, excepting the deduction for AMT carried forward, have been taken into account in the calculation of their income tax otherwise payable.

❑ Correlative amendments

Various correlative amendments must also be made to the current tax legislation to take into account the fact that the tax credit for spouses and the transfer of the unused portion of the tax credit for a spouse's impairment are to be replaced by the mechanism for transferring non-refundable tax credits from one spouse to the other.

- **Alternative minimum tax**

The alternative minimum tax applicable to an individual for a taxation year is equal to the difference between an amount representing 20% of the portion of his or her adjusted taxable income in excess of $25 000, and his or her basic minimum tax deduction.

Currently, the basic minimum tax deduction takes into account all personal tax credits other than the transfer of the unused portion of the tax credit for a spouse's impairment.

To ensure the integrity of the alternative minimum tax, the deduction respecting the transfer of non-refundable tax credits from one spouse to the other will not have to be taken into account in the calculation of the basic minimum tax deduction.

- **Dividends received by a spouse**

Currently, individuals who calculate their income tax payable in accordance with the rules of the general tax system have the option of including, in the calculation of their income, the taxable amount of all dividends received by their spouse from taxable Canadian corporations, so that amount does not reduce the amount for recognized essential needs used to calculate the tax credit for spouses.

Given that individuals whose spouse receives such dividends will be able to claim the unused portion of their spouse's tax credits further to the introduction of the mechanism for transferring non-refundable tax credits from one spouse to the other, the aforementioned option will be eliminated.

- **Tax credit respecting the first child of a single-parent family**

The taxation system provides for a non-refundable tax credit calculated on the basis of an amount of $1 335 for recognized essential needs, subject to automatic indexation, that may be claimed for the child of a single-parent family designated as the first child for the purpose of the application of the tax credit for dependent children. The amount for recognized essential needs is converted into a tax credit at the rate of 20%.

To take advantage of this tax credit for a given taxation year, the head of a single-parent family must not meet, for the year, the conditions relating to the tax credit for spouses. Currently, such an individual meets these conditions if, at any time during the year, he or she supports a person who, at that time, is his or her spouse from whom he or she is not living apart because of the breakdown of their union.

Moreover, the head of a single-parent family must meet the following conditions at any time during the year:

— is not married (or in a *de facto* union) or, in the opposite case, is not living with his or her spouse, or supporting or being supported by his or her spouse;

— is not living in a conjugal relationship with a person;

— maintains a self-contained domestic establishment where he or she ordinarily lives and supports a dependent child.

Given the elimination of the tax credit for spouses, the rule whereby an individual must not meet, for the year, the conditions relating to that credit will be replaced so as to provide that the individual must not deduct, in the calculation of his or her income tax otherwise payable for the year, any amount for the transfer of non-refundable tax credits from one spouse to the other.

Furthermore, for the purpose of the application of this tax credit, persons united in the bonds of marriage will be considered not to have been married at any time if, at that time, they are living apart because of the breakdown of their marriage and have been separated for a period of at least 90 days that includes that time.

- **QST credit**

Currently, an individual who meets the eligibility requirements of the QST credit is entitled to an amount not exceeding the total of the following amounts:

— a basic amount of $158;

— $158 for an eligible spouse;

— $106 as an amount for a person living alone or only with one or more dependent children, where, throughout the year, the individual does not have a spouse and ordinarily lives in a self-contained domestic establishment, and where no other person living in the establishment is entitled to the QST credit for the year.

To take into account the elimination of the tax credit for spouses, the conditions for attributing the amount for a person living alone or only with one or more dependent children will be changed so that the amount can be granted to individuals who do not have an eligible spouse for a given taxation year and who, throughout the year, ordinarily live in a self-contained domestic establishment in which no other person is entitled to the QST credit for the year.

❑ Integrity of the taxation system with regard to the calculation of family income

To ensure the integrity of the taxation system, the concept of eligible spouse as it applies to the mechanism for transferring non-refundable tax credits from one spouse to the other will also be used to determine family income in applying the following measures:

— the tax credits for a person living alone, with respect to age and for retirement income;

— the non-refundable tax credit for medical expenses;

— the tax reduction in respect of families;

— the QST credit;

— the real estate tax refund;

— the tax credit for child-care expenses;

— the tax credit for individuals living in a northern village;

— the refundable tax credit for medical expenses.

This concept will also apply to the calculation of the premium payable under the Québec prescription drug insurance plan.

❑ Date of application

These measures will apply as of the 2003 taxation year.

1.2 Increased possibility of taking advantage of certain deductions and tax credits, and improvement of the family income concept

Taxpayers who opt for the simplified tax system must forgo deducting various amounts in the calculation of their net income, taxable income and income tax payable. All of the deductions and non-refundable tax credits renounced are replaced by a flat amount that is converted, at the rate of 20%, into a non-refundable tax credit.

The rules for calculating the net income of taxpayers who opt for the simplified tax system also apply to the calculation of family income, which is used, in particular, to determine the amount of tax credits reduced by income,[1] regardless of the tax system—general or simplified—chosen by the taxpayers and, where applicable, by their eligible spouse.

A number of changes will be made to the rules of the simplified tax system, as of the 2003 taxation year, to allow more taxpayers to take advantage of the tax credit respecting the flat amount available under that system, as well as to increase government assistance for low- or middle-income households.

1.2.1 Deduction for support payments and other deductions in the calculation of net income

Under the rules of the simplified tax system, certain deductions of the general tax system cannot be taken into consideration in the calculation of net income. These include the deduction for deductible support payments, the deduction for moving expenses and the deduction for certain expenses incurred to earn investment income.

Although all of the deductions that taxpayers must forgo in calculating their net income constitute tax preferences, some of them are specific in nature in that they relate to expenses incurred to earn income or stemming from a civil obligation.

❑ Standardization of the net income concept

To recognize the specific nature of certain expenses and further simplify the personal income tax system, specific rules for calculating net income introduced in conjunction with the simplified tax system will be eliminated.

1 Non-refundable tax credits reduced by income: tax credits for a person living alone, with respect to age and for retirement income, and tax reduction in respect of families.

Refundable tax credits reduced by income: tax credit for child-care expenses, QST credit, tax credit for medical expenses, tax credit for individuals living in a northern village.

Elimination of these rules will make it possible to standardize net income calculated under the simplified system with that determined under the general system. Taxpayers will therefore be able to claim the flat amount under the simplified system without having to forgo a deduction in the calculation of their net income.

❑ Improvement of the family income concept for the application of tax credits and transfer programs

To increase government assistance for low- or middle-income households, family income for the purpose of calculating tax credits reduced by income,[2] the premium payable under the Québec prescription drug insurance plan or the real estate tax refund, as well as income used to calculate family allowances, the basic amount of benefits under the Parental Wage Assistance (PWA) Program or the shelter allowance for seniors and families, will be determined on the basis of the elimination of the distinction between net income calculated under the simplified tax system and net income calculated under the general tax system.

For greater clarity, with a view to preventing government assistance from being granted for a year to households whose income, on the basis of Québec income tax liability rules, is not representative of their actual financial situation, the income of such households will be determined as if they were resident in Canada throughout the year. Thus, the net income of a taxpayer not resident in Canada throughout a taxation year will be deemed, for the purpose of the application of the aforementioned measures, to be equal to the net income that would be determined for the year in the taxpayer's regard were he or she to reside in Québec throughout the year or, if the taxpayer dies in that year, for the period of the year preceding the time of his or her death.

1.2.2 Deductions for residents of designated remote areas

Individuals who live in remote areas prescribed by regulation for a set period can claim a housing deduction, as well as a travel deduction if they enjoy certain travel-related taxable benefits through their job.

In short, the maximum housing deduction is $15 a day,[3] without exceeding 20% of the individual's income for the year, while the travel deduction covers two holiday trips per year paid by the employer and all trips paid by the employer for medical reasons.

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2 *Ibid.*

3 An amount of $7.50 is allocated for each day spent in a designated remote area. It can be doubled if the individual maintains and lives in a self-contained domestic establishment and no other person living in the dwelling claims the housing deduction for the same day.

Inhabitants of the northernmost regions (northern zone) may claim the full amount of these deductions, which are factored into the calculation of taxable income, while inhabitants of the intermediate zone are entitled to 50% of the amount.

Right now, taxpayers who choose the simplified tax system are not entitled to these deductions.

To better recognize the specific needs of taxpayers living in these regions, due to their remoteness and higher cost of living, such persons will no longer have to forgo these deductions when they claim the flat amount under the simplified tax system.

In addition, so that the economic situation of households in a designated remote area is reflected in government assistance provided in the form of tax credits reduced by income,[4] family allowances, the real estate tax refund, the shelter allowance for seniors and families, the PWA program and the exemption from the premium payable under the Québec prescription drug insurance plan, the deductions for residents of designated remote areas will be taken into consideration in the determination of the income used to establish that assistance.

Thus, with a view to facilitating the determination of the family income of taxpayers living in these areas, the tax legislation will be amended so that the deductions for residents of designated remote areas are taken into account in the calculation of net income rather than in the calculation of taxable income.

However, the deductions for residents of designated remote areas will not have to be taken into account in determining the income of a taxpayer with respect to whom a non-refundable tax credit for dependants[5] is claimed. This exception is intended to prevent an amount deducted by a taxpayer for residency in a designated remote area from indirectly enabling another taxpayer—by increasing the tax credits that the latter could claim in the former's regard—to obtain tax assistance for residency in a remote area on the basis of an amount over $15 a day.[6]

1.2.3 Non-refundable tax credits for medical care

The taxation system provides for a non-refundable tax credit to offset medical expenses incurred by taxpayers, where these expenses exceed a certain level of income.

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4 *Supra*, note 1.

5 Namely, the tax credits for dependent children (first child, second child and subsequent children, single parent-family and children engaged in post-secondary studies), the tax credit for other dependants and the tax credit for other dependants with an infirmity.

6 *Supra*, note 3.

It also allows for non-refundable tax credits[7] in the case of taxpayers having to assume certain expenses for specialized medical care available only in large urban centres.

At present, taxpayers cannot claim both the non-refundable tax credits and the flat amount granted under the simplified tax system.

To make the taxation system fairer, taxpayers who must defray major health-care expenses will be able to claim both the flat amount and the following tax credits:

— the non-refundable tax credit for medical expenses;

— the non-refundable tax credit for expenses relating to medical care not available in the area of residence;

— the non-refundable tax credit for moving expenses relating to medical care.

1.2.4 Measures to prevent double taxation

Taxpayers who are taxed by a foreign jurisdiction on their income earned outside Canada can take advantage of certain tax breaks to avoid being taxed twice on the income.

Under current rules, taxpayers who earn such income must forgo this tax relief if they wish to claim the flat amount under the simplified tax system.

Considering that, as a result of market globalization, Québec taxpayers are increasingly likely to earn income from a source outside Canada, changes will be made to the rules of the simplified tax system so that they can avail themselves of the flat amount without having to give up the following measures:

— the deduction respecting an amount exempt from income tax under a tax treaty or agreement;

— the foreign tax credit.

Tables describing the personal income tax system

The following tables summarize, respectively, the deductions and tax credits that will be available under the two tax systems, and the various tax breaks, in the form of deductions or non-refundable tax credits, that will continue to be replaced by the flat amount under the simplified tax system.

7 The tax credit for expenses relating to medical care not available in the area of residence, and the tax credit for moving expenses relating to medical care.

TABLE 1.1

DEDUCTIONS AND TAX CREDITS GRANTED UNDER THE TWO TAX SYSTEMS — 2003 TAXATION YEAR

Deductions in the calculation of net income

The same amounts will be deductible in the calculation of net income under both tax systems. Essentially, these deductions pertain to:

- Contributions to a registered pension plan (RPP)
- Contributions to a registered retirement savings plan (RRSP)
- Repayments of amounts overpaid
- Contributions to the Québec Pension Plan (QPP) on income from self-employment
- Repayments of certain federal benefits
- Transfers to an RPP, an RRSP or a registered retirement income fund (RRIF)
- Attendance-care expenses
- Deductible support payments
- Residents of designated remote areas
- Moving expenses
- Expenses incurred to earn investment income
- Allowable business investment losses
- Flow-through shares –100% basic deduction
- Judicial expenses and expenses relating to an objection
- Exploration fees incurred in Québec
- Repayment of a student loan granted under the SLPW

Deductions in the calculation of taxable income

- Deduction respecting certain benefits (workers' compensation, federal supplements, indemnities from the Société de l'assurance automobile du Québec and certain other income replacement indemnities)
- Deduction for scholarships, bursaries, and prizes for a remarkable achievement
- Deduction relating to the Cooperative Investment Plan (CIP)
- Deduction for assistance granted under certain government programs to defray tuition fees relative to adult basic education
- Deduction for an Indian or a person of Indian ancestry
- Deduction for income-splitting
- Deduction respecting retroactive payments
- Deduction respecting an amount exempt from income tax under a tax treaty or agreement

Non-refundable tax credits

- Basic tax credit
- Tax credits for a person living alone, with respect to age and for retirement income
- Tax credits for dependent children and other dependants
- Tax credit for a severe and prolonged mental or physical impairment
- Tax credit respecting a dependant, other than the spouse, for a severe and prolonged mental or physical impairment
- Tax credit for charitable donations, gifts to the government and other gifts
- Tax credit for contributions to authorized Québec political parties
- Tax reduction in respect of families
- Tax credits for the acquisition of shares in labour-sponsored funds (FSTQ or Fondaction) or in the Capital régional et coopératif Desjardins
- Tax credit respecting the reimbursement of support payments
- Tax credit for medical expenses
- Tax credit for expenses relating to medical care not available in the area of residence
- Tax credit for moving expenses relating to medical care
- Foreign tax credit
- Tax credit respecting support-payment arrears
- Transfer of non-refundable tax credits from one spouse to the other

Refundable tax credits[1]

All refundable tax credits provided for in the taxation system can be claimed under both the simplified and the general tax systems. Essentially, these tax credits are the following:

- Québec sales tax (QST) credit
- Real estate tax refund
- Tax credit for child-care expenses
- QST rebate for employees or members of a partnership
- Tax credit respecting home-support services for seniors
- Tax credit respecting the housing of a parent
- Tax credit for medical expenses
- Tax credit for adoption expenses
- Tax credit for the treatment of infertility
- Tax credit for a top-level athlete
- Tax credit for individuals living in a northern village
- Property estate tax refund for forest producers
- Tax credit for taxi drivers or taxi owners
- Tax credit for the renewal of the stock of taxi vehicles

Refundable tax credits[1] (cont.)
– Tax credit for job creation in the clothing and footwear industry
– Tax credit respecting the maintenance of a racehorse
– Tax credit respecting the reimbursement of salaries or wages
– Tax credit for an on-the-job training period
– Tax credit respecting the income tax paid by an environmental trust
– Tax credit with respect to the reporting of tips
– Tax credits for scientific research and experimental development (R&D)
– Tax credits respecting an international financial centre (IFC) operated by a partnership

1 Also includes certain refunds granted under a tax law other than the *Taxation Act*.

Note: The shaded parts of the Table highlight the deductions and non-refundable tax credits that, as of the 2003 taxation year, will also be available under the simplified tax system.

TABLE 1.2

DEDUCTIONS AND NON-REFUNDABLE TAX CREDITS REPLACED BY THE FLAT AMOUNT — 2003 TAXATION YEAR

Deductions in the calculation of taxable income
Flow-through shares – additional deductions of 25% and 50%
Tax holiday for foreign researchers (R&D)
Tax holiday for Québec seamen
Tax holiday for foreign professors
Tax holiday for foreign post-doctoral interns
Tax holidays for foreign experts
Tax holidays for foreign specialists
Deduction respecting a home-relocation loan
Deduction respecting certain flow-through share issue costs
Deduction for farm losses of part-time farmers
Deduction respecting shares received in exchange for mining property
Deduction for employees of certain government international organizations
Deduction for independent financial derivatives traders
Deduction for foreign producers
Deduction for options to purchase units of a mutual fund trust
Deduction for an eligible rebate
Deduction for workers employed abroad
Deduction for artists respecting copyright income
Deduction for a member of a partnership operating an IFC
Deduction for a stock savings plan (SSP)
Deduction respecting the donation of securities acquired under a stock option
Deduction respecting certified Québec films
Deduction respecting Québec Business Investment Companies (QBICs)
Deductions for stock options granted to employees
Additional capital gains exemption respecting certain resource property
Tax exemptions for IFC employees
Lifetime $500 000 capital gains exemption on small business corporation shares
Lifetime $500 000 capital gains exemption on farm property
Loss carry-overs (capital losses, non-capital losses, farm losses and fishing losses)

Non-refundable tax credits
Tax credit respecting interest paid on a student loan
Tax credit for employment insurance premiums
Tax credit for contributions to the Health Services Fund (HSF)
Tax credit for contributions to the QPP
Tax credit for union or professional dues
Dividend tax credit
Tax credit for tuition or examination fees
Tax credit for members of a religious order
Tax credit respecting alternative minimum tax carried forward
Deduction for logging tax

1.3 Adjustments for the purpose of calculating source deductions

A person who pays, at any time during a taxation year, salaries, wages, retirement benefits, employment insurance benefits or other similar amounts (hereinafter called "remuneration") is required to deduct or withhold an amount as income tax payable for the year by the recipient of the payment.

In general, the amount the payer must deduct or withhold from the remuneration paid to an individual is equal to the amount determined in accordance with the *Source Deduction Table* prepared by the ministère du Revenu du Québec (MRQ), or with a mathematical formula authorized by the MRQ, taking into account the amount of the remuneration paid to the individual, the length of the individual's pay period and the amount of his or her personal tax credits. However, where the amount the payer should deduct from the remuneration would place undue hardship on the recipient, the recipient can ask the MRQ to determine a lower amount that would be deemed the amount of income tax to be deducted at source.

In short, to determine the amount of remuneration paid to an employee, an employer must first add to the salary or wages payable to the employee for a given pay period the value of all benefits or other advantages allocated or paid to the employee, or conferred on the employee, during that period. Then, the employer must subtract, from the total thus determined, the various amounts provided for in the tax regulations, such as contributions to a registered pension plan (RPP), certain contributions to a registered retirement savings plan (RRSP) and certain amounts intended to recognize a specific situation (for example, deductible support payments, or residence in a designated remote area).

The amount of an individual's personal tax credits corresponds to the amount indicated by the individual on the form entitled *Source Deductions Return*, which the individual is required to file with the person paying the remuneration. In the case of an individual who did not file this form, source deductions must be made as if the individual were entitled to deduct, in the calculation of his or her income tax payable for a taxation year, only the basic amount for the year and the flat amount granted for the previous taxation year.

With a view to simplifying the application of the taxation system and ensuring its cohesion, certain adjustments will be made to the calculation of source deductions of income tax.

❑ Employees who make deductible support payments or who live in a designated remote area

Under current rules, employees who make deductible support payments or who live in a designated remote area, can ask that their specific situation entitling them to certain tax breaks be taken into account by their employer when deducting income tax at source from their salary.

However, considering that the amount of their personal tax credits already includes a portion of that tax relief, up to the flat amount, such employees must do a specific calculation to indicate on the *Source Deductions Return* the amount to be applied by the employer, for the purpose of calculating source deductions, in reduction of the remuneration paid to them.

Further to the standardization of the net income concept in the general and simplified tax systems, announced in the *Supplement to the Government's Budgetary Policy*, employees who make deductible support payments or who live in a designated remote area will no longer be required to do a specific calculation to determine the amount to be applied in reduction of the remuneration paid to them.

For greater clarity, such employees will simply have to indicate to their employer, on the *Source Deductions Return*, an amount they feel can be taken into account, in the calculation of their income, as a deduction for support payments and a deduction for residents of designated remote areas.

This measure will apply in respect of a pay period that ends after December 31, 2002.

❑ Employees participating in the Cooperative Investment Plan

The Cooperative Investment Plan (CIP) is designed to encourage the growth of cooperatives by granting a tax benefit to members and workers who acquire preferred units issued by an eligible cooperative—essentially, a labour, manufacturing, processing or agricultural cooperative.

This tax benefit, consisting of a deduction in the calculation of taxable income, depends on the adjusted cost of the preferred units acquired from the cooperative. However, the amount that may be deducted by an individual for a year cannot exceed 30% of his or her total income for that year. Any unused portion of the deduction relating to the CIP can be carried forward five years, subject to the annual limit of 30% of total income.

Since January 1, 2002, individuals have no longer had to forgo the flat amount under the simplified tax system in order to claim the deduction relating to the CIP.[8]

To enable individuals who acquire qualifying preferred units in the CIP through a salary source deduction to take advantage of the tax relief available under the taxation system as they acquire such shares, amendments will be made to the tax regulations so that these acquisitions are taken into account in the determination of the remuneration paid.

More specifically, the tax regulations will be amended to provide that employers must, in calculating the amount of remuneration paid to an employee, deduct, on the basis of the following percentages, the amount withheld from the employee's remuneration, with his or her authorization, for the purpose of acquiring a qualifying preferred unit in the CIP:

— 150% of the amount withheld, where the unit is acquired in a small or medium-size cooperative under an investment program for workers;

— 125% of the amount withheld, where the unit is acquired in a small or medium-size cooperative otherwise than under an investment program for workers;

— 125% of the amount withheld, where the unit is acquired under an investment plan for the workers of a cooperative other than a cooperative covered by the preceding points;

— 100% of the amount withheld in all other cases.

8 Ministère des Finances du Québec Bulletin d'information 2001-13.

However, employers cannot deduct in this regard more than 30% of the amount by which the salary or wages paid to an employee for the year exceeds the total of the following amounts:

— the contributions paid by the employee to an RPP for the year;

— where the employee requests that the qualifying preferred units in the CIP be transferred by the employer to an RRSP of which the employee or his or her spouse is the annuitant, the total contributions thus paid for the year.

Employers must also deduct, in the calculation of the amount of remuneration paid to an employee participating in the CIP, an amount equal to the contribution consisting of the preferred units acquired by the employee through a source deduction from his or her remuneration and transferred by the employer to an RRSP under which the employee or the employee's spouse is the annuitant.

Thus, the amount withheld from an employee's remuneration to acquire qualifying preferred shares in a CIP will give entitlement to a maximum deduction of 250% of the amount withheld, in the calculation of the amount of remuneration paid.

These amendments will apply in respect of a pay period that ends after April 30, 2002.

❑ Source Deductions Return

Currently, individuals to whom a person pays remuneration in a taxation year must submit the *Source Deductions Return* to the payer as soon as they take up their employment or within seven days of an event modifying their personal tax credits for the year.

Considering that, in particular, automatic indexation of the personal income tax system was introduced as of January 1, 2002 and that the events resulting in a change in the amount of personal tax credits are sometimes unhappy ones (the death of a child, for example, in respect of whom an amount for child-care expenses was calculated), amendments will be made to the tax legislation in order to better define the situations and the timeframe in which the *Source Deductions Return* must be filed.

More specifically, the tax legislation will be amended to provide that an individual to whom a person pays remuneration in a taxation year will be required to file with that person the prescribed form containing the prescribed information upon taking up his or her employment, where the individual is an employee of that person, or before the first time remuneration is paid by that person, in all other cases.

If the return is not filed, source deductions must be made as if the individual were entitled to deduct, in the calculation of his or her income tax payable for a taxation year, only the basic amount for the year or the flat amount granted for the previous taxation year.

However, the individual may file the return at any time with the person paying his or her remuneration.

Moreover, once an individual has filed a return on the prescribed form, the individual:

— may file another return at any time to increase, otherwise than through automatic indexation of the personal income tax system, the amounts indicated on the previous return;

— must file a new return within 15 days of an event resulting in a reduction in the amounts indicated on his or her previous return.

These amendments will apply as of the 2003 taxation year.

2. MEASURES CONCERNING BUSINESSES

2.1 Designation of new sites dedicated to biotechnology

Québec's tax legislation includes a set of measures that favour businesses that carry out scientific research and experimental development (R&D) and other forms of innovation in certain activity sectors, in particular those associated with the knowledge-based economy. This applies to, for example, the measures relating to R&D and those relating to carrying out eligible activities in certain designated sites, i.e. measures relating to information technology development centres (CDTIs), the Centre de développement des biotechnologies (CDB) de Laval, the Cité du multimédia, the Centre national des nouvelles technologies de Québec (CNNTQ) and new economy centres (CNEs).

Essentially, the fiscal measures relating to the carrying out of activities in certain designated sites are divided into two types: those relating to the carrying out of an innovative project and those relating to the carrying out of activities other than in the course of carrying out an innovative project (specified activities). These fiscal measures were introduced over many years and the associated refundable tax credits were initially treated as distinct tax credits. In this regard, a simplification of the tax assistance relating to the carrying our of activities in certain designated sites was announced on December 20, 2001.[9]

❑ Fiscal measures relating to the carrying out of an innovative project in a designated site

The fiscal measures relating to the carrying out of an innovative project in a designated site enable a corporation that carries out an innovative project in the information and communications technologies sector in a CDTI or a CNE, or in the biotechnology sector in the CDB de Laval, to enjoy a five-year tax holiday with respect to income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF). Such a corporation may also receive refundable tax credits for salaries paid to eligible employees as well as for the acquisition or leasing of eligible specialized equipment. Furthermore, a foreign specialist employed by such a corporation may receive, for five years, an exemption from tax on his income from such employment.

Lastly, a corporation that carries out an innovative project in the biotechnology sector in the CDB de Laval may also claim a refundable tax credit regarding eligible rent expenses relating to short-term rental of eligible specialized facilities.

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❑ Fiscal measures relating to the carrying out of specified activities in a designated site

The fiscal measures relating to the carrying out of specified activities in a designated site enable a corporation that carries out such activities in a CNE, a CDTI, the Cité du multimédia or the CNNTQ, to claim a refundable tax credit regarding the salaries paid to specified employees. Furthermore, a foreign specialist employed by such a corporation and whose duties are almost exclusively attributable to specified activities may receive, for five years, an exemption from tax on his income from such employment.

In addition, most sectors of the knowledge-based economy are activity sectors eligible for the tax assistance specifically applicable to corporations that carry out specified activities in a CNE, including the new information and communications technology sector and the biotechnology sector.

❑ Centre de développement des biotechnologies de Laval

The creation of the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain was announced in the March 29, 2001 Budget Speech to enable corporations operating in the biotechnology sector to come together and receive, under certain conditions, a tax credit based on the increase in payroll attributable to their eligible employees.

At the same time, a building located within the territory of the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain was designated as a CDB. This was done so that corporations carrying out activities in the biotechnology sector therein may, under certain conditions, benefit from fiscal measures more suited to their needs.

For the purposes of the tax measures relating to a CDB, which are designed to support the carrying out of both an innovative project and of specified activities by the corporations that move into such a designated site, the biotechnology sector, which includes human health, is the only eligible activity sector.

Also, a corporation that carries out an innovative project in the biotechnology sector in the CDB de Laval may obtain an eligibility certificate in this regard and thus may, if it satisfies the other applicable criteria, benefit from the tax measures regarding the carrying out of an innovative project in the biotechnology sector in a designated site.

In addition, a corporation that carries out specified activities in the biotechnology sector in the CDB de Laval, i.e. other than in the course of carrying out an innovative project, may, if it satisfies the applicable criteria, claim the tax assistance specifically attributable to corporations that carry out specified activities in a designated site.

2.1.1 Designation of new biotechnology development centres

For the purpose of encouraging the development of businesses in the biotechnology sector, two new CDBs will be designated in Sherbrooke and Saint-Hyacinthe. This will enable corporations that carry out activities in the biotechnology sector to receive, under certain conditions, the tax assistance specifically applicable to such designated sites.

Furthermore, other CDBs may eventually be designated in certain regions of Québec that are particularly well equipped with infrastructures in the health field as well as in university research and training regarding the biotechnology sector.

In addition, it should be noted that the designation of new CDBs does not mean the introduction of new fiscal measures, but simply the designation of additional sites allowing corporations that carry out activities in the biotechnology sector to benefit, according to the applicable terms and conditions, from the fiscal measures available to corporations that carry out such activities in the CDB de Laval.

❑ Centre de développement des biotechnologies de Sherbrooke

A CDB will be designated in the city of Sherbrooke. More specifically, it will consist of buildings to be constructed on land designated by lot numbers 1 625 144 and 1 624 802 of the cadastre of Québec, Sherbrooke registration division. This new designation will result in authorized floor space of 5 600 square metres.

In addition, a CDTI with 4 650 square metres of floor space has already been designated in Sherbrooke.

Accordingly, as in the case of the CDB de Laval, corporations that carry out activities in the biotechnology sector in Sherbrooke, whether in the course of carrying out an innovative project or in the course of carry out specified activities, must move into the CDB de Sherbrooke in order to benefit from the tax assistance inherent in carrying out such activities.

For greater clarity, the designation of this CDB with 5 600 square metres of floor space and the use of a portion of such floor space to carry out specified activities in the biotechnology sector will not result in diminishing the total floor space of 125 000 square metres set by the Minister of Finance for sites designated as CNEs for all regions of Québec. Furthermore, any future increase in floor space attributable to the CDB de Sherbrooke is the responsibility of the Minister of Finance.

❑ Centre de développement des biotechnologies de Saint-Hyacinthe

A CNE with 1 500 square metres was designated in the city of Saint-Hyacinthe by Investissement Québec. This floor space was designated from the total floor space of 125 000 square metres for all regions of Québec.

Many corporations established in this CNE carry out specified activities in the biotechnology sector.

A CDB with 5 600 square metres of floor space will be designated in Saint-Hyacinthe. More specifically, it will be located on land designated by lot number 2 507 707, of the cadastre of Québec, Saint-Hyacinthe registration division, i.e. the same lot as the existing CNE.

Accordingly, the CNE and the CDB de Saint-Hyacinthe will share total floor space of 7 100 square metres, of which 5 600 square metres will be dedicated exclusively to the biotechnology sector, whether to carry out an innovative project or to carry out specified activities. However, the 1 500 square metres currently designated as a CNE may not be used to host corporations wishing to carry out activities in the biotechnology sector.

Therefore, the premises of this CNE currently used by corporations that carry out specified activities in the biotechnology sector will henceforth be considered as premises of the CDB de Saint-Hyacinthe, which will free up part of this CNE to receive new corporations operating in an eligible sector other than the biotechnology sector.

For greater clarity, the designation of this CDB with 5 600 square metres of floor space will not diminish the total floor space of 125 000 square metres set by the Minister of Finance for sites designated as CNEs for all regions of Québec. Furthermore, any future increase in the floor space attributable to the CDB de Saint-Hyacinthe is the responsibility of the Minister of Finance, while that attributable to the CNE is the responsibility of Investissement Québec. In the latter case, such increase must comply with the overall floor space set by the Minister of Finance for all regions of Québec.

2.1.2 Special application detail of the tax credit for short-term rental of specialized facilities

As indicated above, a corporation that carries out an innovative project in a CDB may claim a refundable tax credit regarding eligible rent expenses relating to short-term rental of eligible specialized facilities. Briefly, this fiscal measure enables such a corporation to claim a refundable tax credit equal to 40% of the amount of its eligible rental expenses.

For corporations that move into the CDB de Laval, the expression "eligible specialized facility", for the purpose of this tax credit, means a facility regarding which a person obtained an eligibility certificate from Investissement Québec to the effect that such facility is:

— either put in place by such person in the CDB de Laval, other than in the premises of a corporation that carries out an innovative project in the biotechnology sector, and consists almost exclusively of specialized assets used in the biotechnology sector that, at the time they are installed in the CDB de Laval, are new and intended to be rented on a short-term basis by many persons;

— or a specialized facility of the l'Institut national de la recherche scientifique (INRS), used in the biotechnology sector and located in the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain.

Accordingly, in the case of the CDB de Laval, an eligible specialized facility may be located either in premises of the CDB, or in premises located outside the CDB.

In the cases of the Sherbrooke and Saint-Hyacinthe CDBs, an eligible specialized facility means a specialized facility located in premises of the CDB concerned, other than in the premises of a corporation that carries out an innovative project in the biotechnology sector, and regarding which the conditions stated above regarding a specialized facility located in such premises are satisfied.

In addition, for the CDB de Sherbrooke, two types of specialized facilities specifically adapted to such CDB will be designated outside the CDB.

Accordingly, in the case of the CDB de Sherbrooke, an eligible specialized facility also means a facility regarding which a person has obtained an eligibility certificate from Investissement Québec to the effect that such facility is:

— either a specialized facility of the Faculté de médecine of the Université de Sherbrooke, used in the biotechnology sector and located on the Campus Est of the Université de Sherbrooke;

— or a specialized facility of the Centre de recherche clinique du Centre hospitalier universitaire de Sherbrooke (CHUS), used in the biotechnology sector and located on the site of the CHUS.

In the case of the CDB de Saint-Hyacinthe, no specialized facility located outside the CDB will be designated for the purpose of this tax credit.

2.1.3 Streamlining regarding the place of work of employees

In the March 29, 2001 Budget Speech, a streamlining measure relating to the place of work of an employee of a corporation that carries out an innovative project in the CDB de Laval was announced, so that an employee would not be ineligible solely because he uses a specialized facility located outside the CDB where he normally works.

As in the case of the CDB de Laval, this streamlining measure will apply to an employee of a corporation that carries out an innovative project in the biotechnology sector and rents an eligible specialized facility located outside the CDB where the corporation is established, whether the CDB de Sherbrooke or any other CDB that may eventually be designated and regarding which a specific specialized facility, located outside such CDB, is designated as an eligible specialized facility for the purposes of the refundable tax credit regarding eligible rent expenses relating to short-term rental of eligible specialized facilities.

For greater clarity, this streamlining measure will only apply regarding an employee of a corporation that carries out an innovative project in a given CDB, and only when such employee uses a specialized facility specifically designated regarding such CDB.

Accordingly, to determine whether, for a taxation year, an employee of a corporation that carries out an innovative project in a CDB performs his duties mainly within the CDB, the time such employee spends using an eligible specialized facility rented by his employer from a person that has obtained an eligibility certificate regarding such specialized facility located outside the CDB, will be deemed to be time in which such employee performs his duties within the CDB.

2.2 Broadening of the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain

The refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain was introduced in the March 29, 2001 Budget Speech. This tax credit was subsequently extended for one year in the November 1, 2001 Budget Speech.

Briefly, this tax credit, which has a 40% rate, is granted with respect to the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology and human health, in the Parc scientifique et de haute technologie de Laval. The tax credit applies regarding calendar years 2001 to 2006 and is designed to offset the costs relating to the apprenticeship period of new employees of businesses operating in this field.

According to existing terms and conditions, an eligible corporation may receive the tax credit regarding a single calendar year if the increase in its payroll is limited to that specific year. Thus, to claim the tax credit with respect to more than one calendar year, the corporation must increase its payroll each year.

Québec's biotechnology industry is booming and many innovative businesses, working with educational institutions and research centres, are participating in its development.

To further stimulate the development of the biotechnology sector while encouraging companies to locate and expand in Québec's regions, three changes will be made.

First, the existing tax credit will be replaced with a new tax credit to enable an eligible corporation to receive assistance regarding three consecutive calendar years, even if the increase in its payroll is limited to a single year.

Furthermore, the tax assistance will be broadened to cover another biotechnology site located in Sherbrooke and, potentially, elsewhere in Québec, in particular Saint-Hyacinthe.

Because of this territorial broadening, the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain will henceforth be called the refundable tax credit for biotechnology development in certain designated sites.

Lastly, a tax holiday for foreign specialists working in the field of biotechnology and human health will be introduced.

2.2.1 New refundable tax credit for biotechnology development in certain designated sites

Briefly, this tax credit will be granted, beginning in calendar year 2002, regarding the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the field of biotechnology, in a designated site.

An eligible corporation may claim this tax credit, whose rate will be 40%, regarding three consecutive calendar years.

However, an eligible corporation that has received the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain, regarding its calendar year 2001, will be allowed to benefit from the refundable tax credit for biotechnology development in certain designated sites only regarding two additional consecutive calendar years.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, that, during a calendar year, carries on a business in Québec and has an establishment there, may, under certain conditions, claim this tax credit for such calendar year.

More specifically, a corporation, for the taxation year in which the calendar year ends, must carry on a certified business in a designated site.

❑ Certified business

For the purposes of this tax credit, a "certified business" means a business regarding which an eligibility certificate has been issued by Investissement Québec and whose activities either consist in manufacturing, in whole or in part, products relating to the biotechnology and human health sector, in particular drugs, vaccines, medical appliances and other by-products, and, incidentally, as the case may be, commercializing them, or are related to these fields.

In this regard, Investissement Québec may consult, in the case of Laval, the corporation "La Cité de la biotechnologie et de la Santé humaine du Montréal métropolitain" and, in the case of Sherbrooke, the corporation "BioMed Développement", to determine whether or not specific activities of a business constitute activities related to the biotechnology sector.

For greater clarity, commercialization activities include, in particular, activities tied to the registration of patents, approval of products, intended use applications, and improvement in manufacturing processes.

Lastly, a certified business, for the purposes of the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain, will be a certified business for the purposes of this tax credit.

❑ Eligibility certificate

As mentioned above, a corporation must obtain, regarding its certified business, an eligibility certificate from Investissement Québec.

In general, Investissement Québec will not issue an eligibility certificate for a business that, in its view, is the continuation of a certified business or part of a certified business regarding which an eligibility certificate was previously issued. For greater clarity, the ministère du Revenu du Québec (MRQ) may provide Investissement Québec with relevant information,[10] so that it can adequately perform its role in this regard and thus secure the integrity of the tax credit.

10 More specifically, such information may be provided as of the date the legislation amending certain legislative provisions in relation to the protection of confidential information is assented to.

However, in order not to impede the recovery of businesses, Investissement Québec may, in some cases, such as the bankruptcy of a corporation, issue an eligibility certificate in relation to a certified business that is the continuation of a certified business regarding which an eligibility certificate was issued in the past. In such a case, the expiry of the eligibility certificate will be set using the reference calendar year of the corporation that held the first certificate.

❑ Designated sites

• Cité de la biotechnologie et de la santé humaine du Montréal métropolitain

The Cité de la biotechnologie et de la santé humaine du Montréal métropolitain corresponds to the existing territory of the Parc scientifique et de haute technologie de Laval. The cadastral description of this territory was released in the March 29, 2001 Budget Speech.

• Zone de développement des biotechnologies de Sherbrooke

The perimeter of the Zone de développement des biotechnologies de Sherbrooke will be specified at a later date.

• Other designated sites

Lastly, the Minister of Finance may eventually designate other sites, in particular in Saint-Hyacinthe.

❑ Eligible employee

An "eligible employee" of an eligible corporation means an employee of an establishment of such corporation located in a designated site, and who is not a specified shareholder of the eligible corporation.

In addition, at least 90% of the duties of such employee, with the eligible corporation, must be allocated to undertaking, supervising or directly supporting the activities of the certified business carried out by the eligible corporation. For greater clarity, duties relating to general administration, such as administrative services and clerical support are not eligible.

Lastly, the MRQ may consult Investissement Québec to learn whether a given employee qualifies as an eligible employee. For greater clarity, only the information needed to obtain an opinion from Investissement Québec will be forwarded by the MRQ, in order to preserve the otherwise confidential nature of the information obtained by the MRQ in the course of applying a tax law.

❑ Determination of the tax credit

An eligible corporation may, regarding a calendar year, receive the refundable tax credit based on the increase in its payroll attributable to its eligible employees, according to the following formula:

Amount of tax credit = 40% x (A - B)

Where:

— the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

• Concept of salary

The salary that must be considered for the application of this formula will be the employment income of an eligible employee, excluding director's fees, a bonus, performance premium, remuneration for work done in excess of normal work hours, a commission and benefits that must be included in calculating such employee's income. However, in the specific case of an eligible employee whose activities are related to commercialization, the notion of salary will include performance premiums and commissions.

• Reference calendar year

In the case where an eligible corporation begins to carry on a certified business in a designated site during calendar year 2002, the reference calendar year of this corporation is calendar year 2001.

However, where an corporation eligible for the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain began to carry on a certified business in 2001, the reference calendar year of such corporation is calendar year 2000.

If an eligible corporation begins to carry on a certified business in a designated site after calendar year 2002, the reference calendar year of such corporation will correspond to the calendar year that precedes the calendar year during which it begins to carry on a certified business in a designated site.

For greater clarity, in the case where an eligible corporation did not carry on a business in Québec during its entire reference calendar year, the amount of wages paid to its eligible employees, for such year, will not be increased.

In addition, if an eligible corporation paid no wages to its eligible employees during its reference calendar year, in the case of a newly formed corporation that establishes itself in a designated site for instance, it may claim the tax credit on the basis of the total increase in payroll attributable to its eligible employees, subject, in particular, to the rules described below relating to associated corporations and activities transferred from one person to another.

- **Integrity of the tax credit**

For the determination of the tax credit, an eligible corporation having both an establishment in a designated site and another establishment elsewhere in Québec must first calculate the increase in payroll attributable to eligible employees of the establishment located in such designated site. This amount may not exceed the total amount of the increase in payroll attributable to its eligible employees and to employees of an establishment of the corporation located in Québec who would be eligible if they were employees of an establishment of the corporation located in a designated site.

Also, special rules will be stipulated concerning business continuations to adjust the amount of the increase in payroll of an eligible corporation when the activities the eligible corporation, a person or partnership carried out in Québec, in relation to a business, decline or cease and, as a result, the activities of the eligible corporation relating to a certified business commence or increase in scope, in an establishment of such eligible corporation located in a designated site.

Accordingly, regarding the merger and winding-up of corporations, rules will be stipulated to consider the attributes of the corporations replaced in such operations. Furthermore, the continuation of a business previously carried on by another taxpayer, as well as the alienation of a business, will also be considered.

In addition, the existence of an increase in payroll attributable to eligible employees of an establishment located in a designated site, for a calendar year, will be determined on a consolidated basis, by considering the attributes of each of the corporations associated among themselves at the end of such calendar year.

For the purposes of this rule, an associated corporation having both an establishment in a designated site and another establishment elsewhere in Québec shall be considered as a separate corporation regarding each of these establishments.

Moreover, associated corporations must divide the amount of the increase in payroll attributable to eligible employees among themselves by filing an agreement to that effect with the MRQ. However, the amount allocated in this way to an eligible corporation may not exceed the amount of the increase in payroll attributable to its eligible employees of an establishment located in a designated site.

However, for the purposes of this tax credit, an eligible corporation, otherwise deemed to be associated with a public corporation, will not be deemed to be associated with such a corporation if such association results either from an option to acquire shares of the eligible corporation or from a corporation associated with it, or from a right to require the eligible corporation or a corporation associated with it to buy back shares of its capital stock owned by other persons, conferred on the public corporation.

- **Reduction in the amount of wages paid to eligible employees**

The total amount of wages paid to eligible employees by an eligible corporation (or to employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the corporation located in a designated site), for a calendar year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit, according to the usual rules.

In addition, this amount must also be reduced by the amount of salaries for which another refundable tax credit is allowed, as well as by the amount of salaries paid to an eligible employee, for a week regarding which a tax credit for on-the-job training periods was or will be allowed in relation to such employee.

In addition, the total salaries paid to an employee regarding whom an eligibility certificate has been issued by Investissement Québec for the purposes of the fiscal measures relating to the carrying out of specified activities, reduce the payroll attributable to eligible employees of an eligible corporation for the purposes of the refundable tax credit for biotechnology development in certain designated sites.

However, these reductions, for the reference calendar year, may not exceed the reductions calculated for the calendar year regarding which the tax credit is determined.

❑ Other application details

If a wage expenditure for which a tax credit has been granted is refunded to the eligible corporation, the tax credit thus granted will be recaptured by means of a special tax. Such will also be the case if the eligibility certificate issued in relation to a certified business with respect to which a tax credit has been granted is revoked by Investissement Québec.

In addition, this tax credit may not be applied against the instalments of an eligible corporation regarding income tax and the tax on capital.

To receive this tax credit, for a calendar year, an eligible corporation must enclose with its tax return, for its taxation year in which such calendar year ends, a form prescribed by the MRQ as well as a copy of the eligibility certificate issued by Investissement Québec regarding its certified business.

In addition, the salaries for which an eligible corporation claims a tax credit must have been paid at the time the tax credit is claimed.

For greater clarity, this new tax credit will be taxable. However, to determine the amount, it will not be considered as an amount of assistance or as an incentive payment.

❑ Excluded corporation

An "excluded corporation", regarding a calendar year, means:

— a corporation which is tax-exempt for the taxation year in which the calendar year ends;

— a Crown corporation or a wholly-controlled subsidiary of such corporation.

❑ Eligibility period for the tax credit

The tax credit will be granted to an eligible corporation for three consecutive calendar years, beginning with the one during which a certified business begins to be carried on in a designated site. In the specific case of a corporation eligible for the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain that began to carry on a certified business in 2001, the tax credit will be granted regarding two additional consecutive calendar years.

However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in a designated site no later than during calendar year 2006.

2.2.2 *Introduction of a tax holiday for foreign specialists working in certain designated biotechnology sites*

To foster the recruitment of foreigners with expertise in specialized activity sectors, the tax legislation provides for tax exemptions so as to encourage such individuals to come to work in Québec. For instance, foreign specialists who hold a job with an employer who carries on a business in a CDB benefit from a tax exemption on their salary consisting of a deduction in the calculation of their taxable income for a maximum of five years.

In view of the advantage provided by such a tax measure in recruiting foreign specialists, a similar tax holiday will be available for foreign experts employed by an eligible corporation that carries on a certified business in a designated biotechnology site. Accordingly, a foreign specialist employed by such a corporation may claim a deduction in calculating his taxable income regarding the salary paid to him by the eligible corporation for a period of five years as a foreign specialist.

For the purposes of the tax holiday, the notions of eligible corporation and of designated site will have the same meaning as they have for the purposes of the refundable tax credit for biotechnology development in certain designated sites.

The application details of this tax holiday will be identical to those of the tax holiday available to foreign specialists employed by an eligible corporation carrying on a business in a CDB. Accordingly, an eligibility certification application must be filed annually with Investissement Québec.

More specifically, the duties of such a foreign specialist with an eligible corporation must be attributable almost exclusively to activities of an eligible business. In addition, these duties must consist almost exclusively in carrying out:

— training;

— research and development;

— specialized tasks at the management level in the field of innovation, commercialization, technology transfer or innovation financing;

— other activities relating to the biotechnology sector;

— a combination of the above.

An individual who commences employment as a foreign specialist with a corporation that begins to carry on a certified business in a designated biotechnology site, no later than during calendar year 2005, may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation, while it is an eligible corporation, after the day of this Supplement to the Government's Budgetary Policy and before the beginning of the third calendar year following the one in which a certified business thus begins to be carried on.

An individual who commences employment as a foreign specialist with a corporation that begins to carry on a certified business in a designated biotechnology site during calendar year 2006, may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation, while it is an eligible corporation, before January 1, 2009.

2.3 Fiscal measures relating to nutraceuticals and functional foods

As a result of the vitality of Québec's entrepreneurs and the quality of its network of universities and research institutes, Québec has become one of the major centres for the development of the biotechnology industry in North America.

In recent years, a variety of fiscal measures have been introduced to support the development of the biotechnology industry in Québec. For instance, the March 29, 2001 Budget Speech introduced a refundable tax credit for corporations operating in the field of biotechnology and human health, namely the refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain.

As mentioned above, the application details of the tax credit have been substantially changed in this Supplement to the Government's Budgetary Policy in order to improve the tax assistance and broaden the territorial scope of the measure. In addition, this refundable tax credit will henceforth be called the refundable tax credit for biotechnology development in certain designated sites.

Many businesses and institutions specializing in the functional foods and nutraceuticals sector, which is one of the most promising sectors of this industry, are to be found in the Québec City region.

To further stimulate the development of this booming sector, while encouraging companies to locate and expand in this region, a second component will be added to the tax assistance relating to biotechnology development in Québec. The tax assistance will consist of a refundable tax credit regarding specific activities carried out in the functional foods and nutraceuticals sector in the Québec City region and a tax holiday for foreign specialists working in these sectors.

2.3.1 Refundable tax credit for nutraceuticals and functional foods

More specifically, this tax credit will be granted, as of calendar year 2002, regarding the increase in payroll attributable to manufacturing or commercialization employees of an eligible corporation operating in the functional foods and nutraceuticals sector, in the Québec City region, and an eligible corporation may claim this tax credit, whose rate will be set at 40%, regarding three consecutive calendar years.

At the legislative level, this tax credit will be a second component of the refundable tax credit for biotechnology development in certain designated sites, introduced in this Supplement to the Government's Budgetary Policy, with the necessary adaptations and subject to the rules stipulated below.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, which, during a calendar year, carries on a business in Québec and has an establishment there, may, under certain conditions, claim the tax credit regarding such calendar year.

More specifically, a corporation, for the taxation year in which the calendar year ends, must carry on a certified business in the eligible region.

❑ Eligible region

The eligible region corresponds to the territory included in the Québec City metropolitan census area, as described by Statistics Canada in the *1996 Census Dictionary*.

❑ Certified business

For the purposes of this tax credit, a "certified business" means a business regarding which an eligibility certificate has been issued by Investissement Québec and whose activities either consist in manufacturing, in whole or in part, functional foods or nutraceuticals and, incidentally, as the case may be, commercializing them, or are related to these fields.

In this regard, functional foods mean foods or beverages, whether fortified or not, that have a direct and measurable effect on health beyond basic nutritional functions. The corporation must demonstrate, in monographs or the results of studies, such direct and measurable effect on health.

Nutraceuticals mean either molecules of nutraceutical interest that occur naturally or are produced by biotechnology processes, or raw extracts. Such molecules or extracts are sold as powders, capsules, caplets or other medicinal forms. Nutraceuticals are compounds that have a significant effect on reducing the risk of developing chronic illnesses or the conditions that may lead to them. The corporation must produce the scientific data supporting the anticipated health effects.

Investissement Québec may consult with the Institut des nutraceutiques et des aliments fonctionnels de l'Université Laval, to determine whether or not specific activities of a business constitute activities that consist in developing or producing functional foods or nutraceuticals.

For greater clarity, commercialization activities include in particular activities relating to the registration of patents, approval of products, intended use applications, and improvement in manufacturing processes.

❑ Determination of the tax credit

While the application details of the tax credit for nutraceuticals and functional foods will be similar to those of the refundable tax credit for biotechnology development in certain designated sites, the certified business will be a separate business for each component. Consequently, the increase in payroll must be determined separately for each tax credit.

❑ Eligibility period for the tax credit

The tax credit will be granted to an eligible corporation regarding three consecutive calendar years, beginning with the one during which a certified business begins to be carried on in the eligible region.

However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in the eligible region no later than during calendar year 2006.

2.3.2 *Introduction of a tax holiday for foreign specialists working in the nutraceuticals and functional foods sector*

To foster the recruitment of foreigners with expertise in specialized activity sectors, the tax legislation provides for tax exemptions to encourage such individuals to come to work in Québec. For instance, foreign specialists who hold a job with an employer who carries on a business in a CDB, benefit from a tax exemption on their salary consisting of a deduction in the calculation of their taxable income for a maximum of five years.

In view of the advantage provided by such a tax measure in recruiting foreign specialists, a similar tax holiday will be available for foreign experts employed by the eligible corporation that carries on a certified business in the eligible region. Accordingly, a foreign specialist employed by such a corporation may claim a deduction in calculating his taxable income regarding the salary paid to him by the eligible corporation for a period of five years as a foreign specialist.

The application details of this tax holiday will be identical to those of the tax holiday available to foreign specialists working in certain designated biotechnology sites, particularly concerning the eligibility certification application, the duties such a specialist must carry out and the period of eligibility for the tax holiday.

2.4 Creation of innovation centres

In recent years, a number of fiscal measures have been introduced regarding designated sites, such as the CDTIs, CNEs, the CNNTQ, the Technopôle Angus and the Cité de l'optique. These measures help make Québec a prime location for the development of the knowledge-based economy.

To accentuate support for innovation in the most promising sectors of the knowledge-based economy, while encouraging companies to locate and expand in the Montréal and Québec City regions, two tax assistance measures will be introduced with the creation of innovation centres. This tax assistance will consist of a refundable tax credit regarding the carrying out of activities relating to information technology and various general application technologies and a tax holiday for foreign specialists working in such sectors.

2.4.1 Refundable tax credit for innovation centres

Briefly, this tax credit will be granted, beginning in calendar year 2002, regarding the increase in payroll attributable to eligible employees of an eligible corporation that moves into a designated site, namely the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec.

An eligible corporation may claim this tax credit, whose rate will be set at 40%, regarding five consecutive calendar years.

❑ Eligible corporation

In general, any corporation, other than an excluded corporation, that, during a calendar year, carries on a business in Québec and has an establishment there, may, under certain conditions, claim this tax credit for such calendar year.

More specifically, a corporation, for the taxation year in which the calendar year ends, must carry on a certified business in one of the designated sites.

❑ Certified business

For the purposes of this tax credit, a "certified business" means a business regarding which an eligibility certificate has been issued by Investissement Québec and whose activities are related to the following sectors:

— Information and communications technologies, in particular:

  - data processing, software or software packages;
  - telecommunications;
  - consulting services.

— Production technologies, in particular:

  - design and engineering;
  - assembly-line manufacturing;
  - automatic handling of materials;
  - manufacturing information systems.

— Biotechnology, in particular:

  - human and animal health;
  - agriculture, bio-food and forestry;
  - environment.

— Materials technology, in particular:

  - chemical materials and metallic materials;
  - polymers and composite materials.

— Services of a scientific or technological nature, in particular:

  - engineering services;
  - testing laboratories;
  - scientific and technical consulting services;
  - computer systems design.

More specifically, for each of these sectors, activities relating to the gathering, storage, processing and transmission of information may be considered as activities of a certified business.

In addition, activities focusing on innovation, in particular pre-production, production, technology adaptation and the development of new by-products may also be considered as activities of a certified business.

However, activities relating to market analysis and development, credit arrangements, business plans, financing for capital investments, advertising and promotion will not be recognized as activities of a certified business.

❑ Eligibility certificate

As mentioned above, a corporation must obtain an eligibility certificate regarding its business from Investissement Québec.

Generally speaking, Investissement Québec will not issue an eligibility certificate for a business that, in its view, is the continuation of a certified business or part of a certified business regarding which an eligibility certificate was previously issued. For greater clarity, the MRQ may provide Investissement Québec with any relevant information,[11] so that it can adequately perform its role in this regard and thus secure the integrity of the tax credit.

11 More specifically, such information may be provided as of the date the legislation amending certain legislative provisions in relation to the protection of confidential information is assented to.

However, in order not to impede the recovery of businesses, Investissement Québec may, in some cases, such as the bankruptcy of a corporation, issue an eligibility certificate in relation to a certified business that is the continuation of a certified business regarding which an eligibility certificate was issued in the past. In such a case, the expiry of the eligibility certificate will be set using the reference calendar year of the corporation that held the first certificate.

❑ Designated sites

- **Carrefour de l'innovation de Montréal**

Essentially, the Carrefour de l'innovation de Montréal will correspond to part of the existing territory of the Technoparc St-Laurent, whose cadastral description is appended, and the existing territory of the Technopôle Angus, whose location was defined in the March 14, 2000 Budget Speech.

- **Carrefour de l'innovation de Québec**

The Carrefour de l'innovation de Québec will correspond to the existing territory of the Parc technologique du Québec métropolitain, whose cadastral description is appended.

❑ Eligible employee

An " eligible employee" of an eligible corporation means an employee of an establishment of such corporation located in a designated site and who is not a specified shareholder of the eligible corporation.

Furthermore, at least 90% of the duties of such employee with the eligible corporation must be concentrated on undertaking, supervising or directly supporting the activities of the certified business carried out by the eligible corporation. For greater clarity, duties relating to general administration, such as administrative services and clerical support will not be eligible.

Lastly, the MRQ may consult Investissement Québec to learn whether a given employee qualifies as an eligible employee. For greater clarity, only the information needed to obtain an opinion from Investissement Québec will be forwarded by the MRQ, in order to preserve the otherwise confidential nature of the information obtain by the MRQ in the course of applying a tax law.

❑ Determination of the tax credit

An eligible corporation may, regarding a calendar year, receive the refundable tax credit based on the increase in its payroll attributable to its eligible employees, according to the following formula:

$$\text{Amount of tax credit} = 40\% \times (A - B)$$

Where:

— the letter A represents the total wages paid by the corporation to its eligible employees for the calendar year;

— the letter B represents the total wages paid by the corporation to its eligible employees for its reference calendar year.

- **Concept of salary**

The salary that must be considered for the application of this formula will be the employment income of an eligible employee, excluding director's fees, a bonus, performance premium, remuneration for work done in excess of normal work hours, a commission and benefits that must be included in calculating such employee's income.

- **Reference calendar year**

The reference calendar year of an eligible corporation that begins to carry on a certified business in a designated site during calendar year 2002 is calendar year 2001.

The reference calendar year of an eligible corporation that begins to carry on a certified business in a designated site after calendar year 2002 corresponds to the calendar year that precedes the calendar year during which it begins to carry on a certified business in a designated site.

For greater clarity, in the case where an eligible corporation that did not carry on a business in Québec during its entire reference calendar year, the amount of wages paid to its eligible employees, for such year, will not be increased.

Furthermore, if an eligible corporation paid no wages to its eligible employees during its reference calendar year, in the case of a newly formed corporation that establishes itself in a designated site for instance, it may claim the tax credit on the basis of the total increase in payroll attributable to its eligible employees, subject, in particular, to the rules described below relating to associated corporations and activities transferred from one person to another.

Lastly, if an eligible corporation carries on many businesses for which eligibility certificates have been issued, these certified businesses will constitute a single certified business for the purposes of the tax credit. Accordingly, the increase in its payroll shall be determined for all the certified businesses carried on by an eligible corporation.

- **Integrity of the tax credit**

For the determination of the tax credit, an eligible corporation having both an establishment in a designated site and another establishment elsewhere in Québec must first calculate the increase in payroll attributable to eligible employees of the establishment located in such designated site. This amount may not exceed the total amount of the increase in payroll attributable to its eligible employees and to employees of an establishment of the corporation located in Québec who would be eligible if they were employees of an establishment of the corporation located in a designated site.

Also, special rules will be stipulated concerning business continuations, to adjust the amount of the increase in payroll of an eligible corporation when the activities the eligible corporation, a person or partnership carried out in Québec, in relation to a business, decline or cease and, as a result, the activities of the eligible corporation relating to a certified business commence or increase in scope, in an establishment of such eligible corporation located in a designated site.

Accordingly, regarding the merger and winding-up of corporations, rules will be stipulated to consider the attributes of the corporations replaced in such operations. Furthermore, the continuation of a business previously carried on by another taxpayer, as well as the alienation of a business, will also be considered.

In addition, the existence of an increase in payroll attributable to eligible employees of an establishment located in a designated site, for a calendar year, shall be determined on a consolidated basis, by considering the attributes of each of the corporations associated among themselves at the end of such calendar year.

For the purposes of this rule, an associated corporation having both an establishment in a designated site and another establishment elsewhere in Québec shall be considered as a separate corporation regarding each of these establishments.

Moreover, associated corporations must divide the amount of the increase in payroll attributable to eligible employees among themselves by filing an agreement to that effect with the MRQ. However, the amount allocated in this way to an eligible corporation may not exceed the amount of the increase in payroll attributable to its eligible employees of an establishment located in a designated site.

However, for the purposes of this tax credit, an eligible corporation, otherwise deemed to be associated with a public corporation, will not be deemed to be associated with such a corporation if such association results either from an option to acquire shares of the eligible corporation or from a corporation associated with it, or from a right to require the eligible corporation or a corporation associated with it to buy back shares of its capital stock owned by other persons, conferred on the public corporation.

- **Reduction in the amount of wages paid to eligible employees**

The total amount of wages paid to eligible employees by an eligible corporation (or to employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the corporation located in a designated site), for a calendar year, must be reduced by the amount of any government assistance, any non-government assistance and any profit or benefit, according to the usual rules.

In addition, this amount must also be reduced by the amount of salaries for which another refundable tax credit is allowed, as well as by the amount of salaries paid to an eligible employee for a week regarding which a tax credit for on-the-job training periods was or will be allowed in relation to such employee.

Furthermore, the total amount of salaries paid to an employee regarding whom an eligibility certificate has been issued by Investissement Québec for the purposes of the fiscal measures relating to the carrying out of specified activities will reduce the payroll attributable to eligible employees of an eligible corporation for the purposes of the refundable tax credit for innovation centres

However, these reductions, for the reference calendar year, may not exceed the reductions calculated for the calendar year regarding which the tax credit is determined.

❑ Other application details

If a wage expenditure for which a tax credit has been granted is refunded to the eligible corporation, the tax credit thus granted will be recaptured by means of a special tax. Such will also be the case if the eligibility certificate issued in relation to a certified business with respect to which a tax credit has been granted is revoked by Investissement Québec.

In addition, this tax credit may not be applied against the instalments of an eligible corporation regarding income tax and the tax on capital.

To receive this tax credit, for a calendar year, an eligible corporation must enclose with its tax return, for its taxation year in which such calendar year ends, a form prescribed by the MRQ as well as a copy of the eligibility certificate issued by Investissement Québec with respect to its certified business.

In addition, the salaries for which an eligible corporation claims a tax credit must have been paid at the time the tax credit is claimed.

For greater clarity, this new tax credit will be taxable. However, to determine the amount, it will not be considered as an amount of assistance or as an incentive payment.

❑ Excluded corporation

An "excluded corporation", regarding a calendar year, means:

— a corporation which is tax-exempt for the taxation year in which the calendar year ends;

— a Crown corporation or a wholly-controlled subsidiary of such corporation.

❑ Eligibility period for the tax credit

The tax credit will be granted to an eligible corporation regarding five consecutive calendar years, starting with the one in which a certified business begins to be carried on in a designated site.

However, to receive this tax credit, an eligible corporation must begin carrying on a certified business in a designated site no later than during calendar year 2006.

2.4.2 *Introduction of a tax holiday for foreign specialists working in innovation centres*

To foster the recruitment of foreigners with expertise in specialized activity sectors, the tax legislation provides for tax exemptions so as to encourage such individuals to come to work in Québec. For instance, foreign specialists who hold a job with an employer who carries on a business in a CDTI or a CNE, benefit from a tax exemption on their salary consisting of a deduction in the calculation of their taxable income for a maximum of five years.

In view of the advantage provided by such a tax measure in recruiting foreign specialists, a similar tax holiday will be available for foreign experts employed by an eligible corporation that carries on a certified business in the Carrefour de l'innovation de Montréal or the Carrefour de l'innovation de Québec. Accordingly, a foreign specialist employed by such a corporation may claim a deduction in calculating his taxable income regarding the salary paid to him by the eligible corporation for a period of five years as a foreign specialist.

For the purposes of the tax holiday, the notions of eligible corporation and of innovation centre will have the same meaning as for the purposes of the refundable tax credit for innovation centres.

The application details of this tax holiday will be identical to those of the tax holiday available to foreign specialists employed by an eligible corporation carrying on a business in a CNE Accordingly, an eligibility certification application must be filed annually with Investissement Québec.

More specifically, the duties of such a foreign specialist with an eligible corporation must be attributable almost exclusively to activities of a certified business. In addition, these duties must consist almost exclusively in carrying out:

— training;

— research and development;

— development and operation of technological systems and infrastructures;

— specialized tasks at the management level in the field of innovation, commercialization, technology transfer or innovation financing;

— a combination of the above.

An individual who commences employment as a foreign specialist with a corporation that begins to carry on a certified business in an innovation centre no later than during calendar year 2005 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation, while it is an eligible corporation after the day of this Supplement to the Government's Budgetary Policy and before the beginning of the fifth calendar year following the year in which a certified business began to be carried on.

An individual who commences employment as a foreign specialist with a corporation that begins to carry on a certified business in an innovation centre in the course of calendar year 2006 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation, while it is an eligible corporation, before January 1, 2011.

2.5 Fiscal measures relating to e-business activities carried out in certain designated sites

2.5.1 *Changes to the refundable tax credit for e-business activities carried out in certain designated sites*

The refundable tax credit for e-business activities carried out in certain designated sites was introduced in the November 1, 2001 Budget Speech and changes were made to it on December 20, 2001 concerning the notion of eligible employee.[12]

Generally speaking, this refundable tax credit is allowed with respect to the increase in payroll attributable to eligible employees of an eligible corporation that moves into designated premises located either in the Montréal E-Commerce Zone or in the CNNTQ, regarding five consecutive calendar years.

However, in order to receive this tax credit for five calendar years, an eligible corporation must begin to carry on a certified business no later than during calendar year 2009. If a certified business begins to be carried on during a calendar year following 2009, the corporation may receive the tax credit only for the period from such year to calendar year 2013 inclusive.

More specifically, to determine the refundable tax credit, an eligible corporation must compare the payroll of a given calendar year with that of its reference calendar year. Such reference calendar year corresponds to the calendar year preceding the one in the course of which the corporation began to carry on a certified business, i.e. a business regarding which an eligibility certificate was issued by the Bureau du commerce électronique.

❑ Interaction with other refundable tax credits

Currently, the increase in payroll attributable to eligible employees of an establishment located in a designated site, may not exceed the total amount of the increase in payroll attributable to such eligible employees and to employees of an establishment of the corporation located in Québec who would be eligible if they were employees of an establishment of the corporation located in a designated site.

12 Ministère des Finances du Québec Bulletin d'information 2001-13.

Furthermore, the total amount of wages paid to eligible employees by an eligible corporation (or to employees of an establishment of the corporation located in Québec who would be eligible employees had they been employees of an establishment of the corporation located in a designated site) for the calendar year with respect to which the tax credit is determined must be reduced by the amount of salaries regarding which another refundable tax credit is granted. A similar reduction applies for the reference calendar year, though this reduction may not exceed the one calculated for the calendar year with respect to which the tax credit is determined.

Eligible (or specified) employees for the purposes of certain fiscal measures could be eligible employees for the purposes of the tax credit for e-business activities carried out in certain designated sites if such employees are assigned to an establishment located in a designated site. Accordingly, in calculating the increase in its payroll, an eligible corporation must reduce its payroll by the amount on which such tax credit was granted.

However, such reductions may give undesirable results, in particular when the other tax credit granted applies either for only one of the calendar years covered by the calculation of the increase in payroll or on a portion of the reference calendar year.

To correct such undesirable situations, a change will be made to the application details of the refundable tax credit for e-business activities carried out in certain designated sites.

More specifically, for the purposes of this tax credit, the payroll of an eligible corporation, for its reference calendar year, must also be reduced by the salaries regarding which another refundable tax credit was granted if such other tax credit was applied to these salaries for such reference calendar year and provided it was thus applied.

This reduction must be established by considering the eligible employees covered by such other tax credit, for the calendar year with respect to which the tax credit for e-business activities is determined. In addition, the reduction is to be calculated on the basis of the ceiling on eligible salaries then applicable for the reference calendar year. Consequently, the reduction thus calculated for a reference calendar year may exceed the reduction calculated for a given calendar year, provided such excess results from a reduction in the ceiling on eligible salaries for the purposes of such other tax credit.

❑ Streamlining of the notion of associated corporation

Currently, an eligible corporation must determine the increase in its payroll on a consolidated basis, i.e. by considering the attributes of corporations associated with it.

Furthermore, to determine whether corporations are associated with each other, the tax legislation stipulates, subject to certain exceptions, that a person with an option to acquire shares of a corporation or the right to require a corporation to buy back shares owned by other persons is treated as if the option or the right had been exercised.

In the case where a public corporation holds such an option or such a right in regard to shares of the capital stock of a corporation, it is not really in a position to exercise the voting rights attached to such shares. Such option or right does not allow the public corporation to become directly involved in the management of such corporation, but rather is designed to protect the interests of the public corporation in regard to the corporation.

To recognize this specific situation, the application details of the tax credit for e-business activities carried out in certain designated sites will be changed so that, for the purposes of this tax credit, an eligible corporation, otherwise deemed to be associated with a public corporation, is not deemed to be associated with such a corporation if such association results either from an option to acquire shares of the eligible corporation or of a corporation associated with it, or from a right to require the eligible corporation or a corporation associated with it to buy back shares of its capital stock owned by other persons, conferred on the public corporation.

❑ Application date

These changes will apply as of calendar year 2001.

2.5.2 *Introduction of a tax holiday for foreign specialists working in certain designated sites*

To foster the recruitment of foreigners with expertise in specialized activity sectors, the tax legislation provides for tax exemptions to encourage such individuals to come to work in Québec. For example, foreign specialists who are employed by an employer that carries on a business in E-Commerce Place benefit from a tax exemption on their salary consisting of a deduction in the calculation of their taxable income for a maximum of five years.

In view of the advantage provided by such a tax measure in recruiting foreign specialists, a similar tax holiday will be available for foreign experts employed by an eligible corporation that carries on a certified business in the Montréal E-Commerce Zone or in the CNNTQ. Accordingly, a foreign specialist employed by such a corporation may claim a deduction in calculating his taxable income regarding the salary paid to him by the eligible corporation for a period of five years as a foreign specialist.

Generally speaking, the application details of this tax holiday will be identical to those of the tax holiday available to foreign specialists employed by an eligible corporation that carries on a business in E-Commerce Place. Accordingly, an eligibility certification application must be filed annually with the Bureau du commerce électronique with respect to each foreign specialist.

More specifically, the duties of such a foreign specialist with an eligible corporation must be attributable almost exclusively to activities of a certified business. In addition, these duties must consist almost exclusively in carrying out:

— training;

— research and development;

— development and operation of technological systems and infrastructures;

— specialized tasks at the management level in the field of innovation, commercialization, technology transfer or innovation financing;

— a combination of the above.

An individual who commences employment as a foreign specialist with a corporation that begins to carry on a certified business in one of the designated sites no later than during calendar year 2008 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation, while it is an eligible corporation, after the day of the Supplement to the Government's Budgetary Policy and before the beginning of the fifth calendar year following the one in which a certified business begins to be carried on.

An individual who commences employment as a foreign specialist with a corporation that begins to carry on a certified business in one of the designated sites during a calendar year after 2008 may benefit from the five-year tax holiday only if he concludes an employment contract with such corporation while it is an eligible corporation, or if he commences employment as a foreign specialist with such corporation, while it is an eligible corporation, before January 1, 2014.

2.6 Improvement of various refundable tax credits granted in certain regions

In recent years, the government has introduced many specific fiscal measures, for the benefit of certain regions, to bolster economic development in these regions and stimulate the development and expansion of businesses.

Accordingly, three refundable tax credits were put in place to encourage job creation in the resource regions of Québec, namely the refundable tax credit for processing activities in the resource regions, the refundable tax credit for Gaspésie and certain maritime regions of Québec and the refundable tax credit for the Vallée de l'aluminium.

These tax credits target specific activities carried out in particular in the manufacturing and processing sectors. Although their application details are identical, the three tax credits are considered independent and separate tax credits because the activities they cover may be specific to certain regions.

Generally speaking, these refundable tax credits are granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation operating in one of the target regions, regarding five consecutive calendar years.

More specifically, to determine its refundable tax credit, an eligible corporation must compare the payroll of a given calendar year with that of its reference calendar year. The reference calendar year corresponds to the calendar year preceding the one during which the corporation began to carry on a certified business, i.e. a business regarding which Investissement Québec has issued an eligibility certificate.

This notion of certified business will be broadened solely for the purposes of the refundable tax credit for processing activities in resource regions.

In addition, for each of these three tax credits, an employee is considered eligible if, in particular, at least 75% of his duties consist in directly supporting the activities of the certified business carried on by the eligible corporation that employs him. In addition, currently, the tax credit must be calculated certified business by certified business.

In the case where a corporation operates more than one certified business or is eligible for more than one such tax credit, the duties of some employees may be devoted to supporting the activities of these certified businesses, but the proportion of such duties may be less than 75% for each such business.

To enable such a corporation to benefit from the tax credit regarding the increase in payroll attributable to such employees, the notion of eligible employee will be streamlined for each of these three tax credits.

2.6.1 Refundable tax credit for processing activities in the resource regions

The refundable tax credit for processing activities in the resource regions was introduced in the March 29, 2001 Budget Speech. Some changes were made to it on July 5, 2001 to broaden the notion of certified business and streamline the conditions for issuing an eligibility certificate.[13] In addition, the notion of resource region was broadened on August 21, 2001, to include three RCMs far from major centres.[14] Lastly, adjustments were made in the November 1, 2001 Budget Speech to allow the revocation of the eligibility certificate and the reduction of payroll of the reference calendar year.

Generally speaking, the refundable tax credit for processing activities in the resource regions is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in one of Québec's resource regions regarding five consecutive calendar years.

More specifically, for the purposes of this tax credit, a corporation must carry on, in an eligible region, a certified business regarding which Investissement Québec has issued an eligibility certificate and whose activities include the manufacturing or processing of wood and metals, food processing, production of non-conventional energy, aquaculture or the manufacturing or processing of finished or semi-finished products from precious stones or fine stones.

❑ Broadening of the notion of certified business

The notion of "certified business" will be broadened, as of calendar year 2001, to also designate a business whose activities are:

— setting precious stones or fine stones;

— making jewels;

— printing or publishing, including activities relating to typesetting, printing, collating, folding and bundling;

— drying of structural lumber in ovens and planing of structural lumber of a plant.

In the latter case, for greater clarity, the activities occurring prior to the delivery of logs to a sawmill or any other place for processing or that consist in sawing logs into structural lumber will not be recognized as activities of a certified business.

13 Ministère des Finances du Québec Bulletin d'information 2001-6.

14 Ministère des Finances du Québec Bulletin d'information 2001-7.

❑ Streamlining of the notion of eligible employee

Currently, the notion of eligible employee means an employee at least 75% of whose duties are devoted to carrying out, supervising or directly supporting the activities of the certified business carried on by the eligible corporation. Accordingly, duties relating to general administration, such as administrative services are ineligible.

In the case where a corporation operates more than one certified business or receives more than one such tax credit, the duties of some employees may be devoted to supporting the activities of these certified businesses, but the proportion of such duties may be less than 75% for each such business.

Accordingly, the notion of eligible employee will be streamlined to allow such a corporation to receive the tax credit regarding the increase in payroll attributable to such employees.

Thus, an employee may qualify as an eligible employee, in relation to each of the certified businesses carried on by his employer, if at least 75% of his duties are devoted to carrying out, supervising or directly supporting the activities of such certified businesses carried on by the eligible corporation, considered as a whole.

For example, an employee who devotes 40% of his time in supporting the activities of certified business A and 60% of his time in supporting the activities of certified business B may qualify as an eligible employee for the purposes of the tax credits concerned. The eligible corporation will then calculate the increase in payroll, for each of the certified businesses, by including respectively 40% and 60% of the salary paid to such employee.

This streamlining measure applies as of calendar year 2001.

2.6.2 *Refundable tax credit for Gaspésie and certain maritime regions of Québec*

The introduction of a refundable tax credit for Gaspésie and certain maritime regions of Québec was announced on November 17, 2000.[15] Changes were then made to it in the March 29, 2001 Budget Speech, in particular regarding the calculation of payroll for the reference year. On July 5, 2001, the conditions for issuing an eligibility certificate were streamlined.[16] Lastly, adjustments were made in the November 1, 2001 Budget Speech to allow the revocation of the eligibility certificate and a reduction in payroll of the reference calendar year.

15 Ministère des Finances du Québec Bulletin d'information 2000-8.

16 Ministère des Finances du Québec Bulletin d'information 2001-6.

Generally speaking, this refundable tax credit is allowed with respect to the increase in payroll attributable to eligible employees of an eligible corporation operating in the administrative regions of Gaspésie–Îles-de-la-Madeleine and Côte-Nord and in the Matane RCM, regarding five consecutive calendar years.

Like the change made to the tax credit for processing activities in resource regions, the notion of eligible employee will be changed according to the same rules as those indicated in the case of the refundable tax credit for processing activities in the resource regions.

This change will apply as of calendar year 2001.

2.6.3 Refundable tax credit for the Vallée de l'aluminium

The refundable tax credit for the Vallée de l'aluminium was introduced in the March 14, 2000 Budget Speech. Certain clarifications were subsequently made on December 21, 2000 concerning the notion of manufacturing.[17] In the March 29, 2001 Budget Speech, the application details of this tax credit were harmonized with those of the refundable tax credit for processing activities in resource regions. On July 5, 2001 the conditions for issuing an eligibility certificate were streamlined.[18] Lastly, adjustments were made in the November 1, 2001 Budget Speech to allow the revocation of the eligibility certificate and a reduction in payroll of the reference calendar year.

Generally speaking, the refundable tax credit for the Vallée de l'aluminium is granted regarding the increase in payroll attributable to eligible employees of an eligible corporation operating in the Saguenay–Lac-Saint-Jean administrative region regarding five consecutive calendar years.

Like the change made to the tax credit for processing activities in the resource regions and the tax credit for Gaspésie and certain maritime regions of Québec, the notion of eligible employee will be changed according to the same rules as those indicated in the case of the refundable tax credit for processing activities in resource regions.

This change will apply as of calendar year 2001.

17 Ministère des Finances du Québec Bulletin d'information 2000-10.

18 Ministère des Finances du Québec Bulletin d'information 2001-6.

2.7 Adjustments concerning fiscal measures relating to the financial sector

2.7.1 *International financial centres*

Briefly, an international financial centre (IFC) is a business or part of a business established in Montréal all of whose activities pertain to qualified international financial transactions (QIFTs). The main benefits stipulated in the tax legislation regarding an IFC include a tax exemption and various refundable tax credits for the operator of an IFC, as well as a partial or total exemption from income tax for employees.

Under existing rules, an international financial transaction is recognized as a QIFT when, in general, the transaction is carried out for a person who does not reside in Canada. Some financial transactions carried out for a person who resides in Canada may also be recognized as QIFTs when, in general, such financial transactions involve financial products relating to foreign markets.

To ensure that the objectives of the measures relating to IFCs are achieved, various amendments will be made to the legislation.

❑ Clarification regarding businesses of international financial centres

Under the current legislation, a business must satisfy certain conditions to qualify as an IFC. In particular, the activities enabling the QIFTs effected in the course of its operations to be carried out must be managed entirely within the territory of the city of Montréal. In addition, the activities of such business must be located in one place within the territory of the city of Montréal.

Concerning a QIFT that is a foreign exchange transaction, the legislation specifies that these conditions are not considered not to be satisfied simply because such transaction was initiated by a customer who, in order to do so, visited an office or a branch of the corporation or the partnership other than the place where the activities of the business are located within the territory of the city of Montréal.

To enable similar treatment regarding all QIFTs, the legislation will be amended so that this clarification regarding the place where a transaction is initiated will apply not just to foreign exchange transactions of an IFC, but also to all QIFTs that may be initiated in a place other than the place where the activities of the business are located within the territory of the city of Montréal.

More specifically, the legislation will be amended to replace, in the text of the clarification referring to the place of initiation of a transaction, the reference to foreign exchange transactions with a general reference to all QIFTs to which the notion of initiation of transaction may apply.

The application of this change will be declaratory.

❑ Broadening of qualified international financial transactions carried out using letters of credit

Under the current legislation, the acceptance or issuance of letters of credit in respect of an operation or transaction relating to property, goods or the supply of services to which not more than one party is or includes a person resident in Canada, may constitute a QIFT.

In the field of international trade, financial activities bearing on letters of credit, in particular by bank corporations, are not limited to acceptance or issuance of such letters of credit but also include discount transactions regarding such letters of credit.

Briefly, a discount transaction is an operation through which a financial institution makes available to the bearer of an unexpired instrument the net proceeds of such instrument, i.e. the proceeds after deducting interest and fees, against the transfer to it of the ownership of the claim and its accessories.

To reflect the importance of this activity for IFCs operating in the international trade field, the legislation will be amended.

More specifically, the legislation will be amended so that a discount operation made regarding a letter of credit, when such operation is carried out consecutively or incidentally to the acceptance or issuance of a letter of credit in respect of an operation or transaction relating to property, goods or to the supply of services to which not more than one party is or includes a person resident in Canada, may constitute a QIFT.

However, in order to constitute a QIFT, the discount operation by the operator of an IFC must be carried out in the course of an arm's length transaction between the operator of the IFC and the debtor or assignee of the letter of credit, and without right of recourse for the operator of the IFC against any of these persons.

This change will apply to discount operations carried out by the operator of an IFC after March 29, 2001.

❑ Broadening of qualified international financial transactions relating to participation in a documentary collection transaction

Since the March 29, 2001 Budget Speech, the participation of an operator of an IFC in a documentary collection transaction in respect of an operation relating to property, goods or to the supply of services to which not more than one party is or includes a person resident in Canada, may constitute a QIFT.

Briefly, documentary collection is an operation whereby a vendor mandates a financial institution to collect the proceeds from a sale from the purchaser, normally foreign, against certain commercial or financial documents.

Like the prevailing situation regarding the activity of issuance or acceptance of letters of credit, participation in a documentary collection transaction may also give rise, for the operator of an IFC, either consecutively or incidentally, to a discount operation on a trade bill.

To reflect the importance of this activity for IFCs operating in the international trade field, the legislation will be amended in a way similar to that described above regarding the activity of issuance or acceptance of letters of credit.

More specifically, the legislation will be amended so that the discount operation carried out regarding a trade bill, when such operation is carried out consecutively or incidentally to the participation of an operator of an IFC in a documentary collection transaction in respect of an operation or transaction relating to property, goods or to the supply of services to which not more than one party is or includes a person resident in Canada, may constitute a QIFT.

However, in order to constitute a QIFT, the discount operation by the operator of an IFC must be carried out in the course of an arm's length transaction between the operator of the IFC and the debtor or assignee of the trade bill, and without right of recourse for the operator of the IFC against any of these persons.

This change will apply to discount operations carried out by the operator of an IFC after March 29, 2001.

❑ Adjustments to back office activities

Under existing legislation, back office activities, i.e. the administrative and clerical tasks associated with the financial activities of a business, may constitute QIFTs for the purposes of the tax benefits relating to IFCs.

However, in short, such activities must be carried out by an operator of an IFC on his own account or on behalf of another operator of an IFC, of a financial corporation or of another person and, in the latter case, in regard to QIFTs carried out by such other person (outsourcing situations).

Some situations involving the outsourcing of back office activities initially covered by fiscal policy underlying such activities are not covered by the existing legislation.

More specifically, these outsourcing situations concern, for instance, cases of pension funds that entrust the management of foreign securities to a portfolio manager, and back office activities relating to such management to a third party specialized in this type of activity and having IFC status. In such a situation, since the back office activities do not relate to QIFTs carried out by the pension fund, but instead to QIFTs carried out by an outside manager on behalf of the pension fund, the back office activity performed by the specialized third party does not constitute, under the existing legislation, a QIFT for such specialized third party.

To ensure that the operator of an IFC that provides such back office support does not lose the benefits relating to the qualification of an activity as a QIFT, the legislation will be amended.

More specifically, the legislation will be amended so that the back office activity carried out on behalf of a person, a partnership or a trust, in relation to a QIFT carried out by such person, by such partnership or by such trust, or on behalf of any of these entities, shall constitute a QIFT.

The application of this change will be declaratory.

❑ Activities performed under the Immigrant Investor Program for assistance to businesses

The immigrant investor program for assistance to businesses (IIP) is designed to encourage economic development in Québec by enabling financial assistance to Québec SMEs through investor immigrants selected by the Québec government under the *Regulation respecting the selection of foreign nationals*.

The IIP has been in effect in its current form since June 8, 2000[19] and is the responsibility of Investissement Québec. Besides Investissement Québec, a number of financial intermediaries also help promote the IIP by performing various financial transactions on behalf of investor immigrants. These financial transactions are designed in particular to enable investor immigrants to satisfy the investment obligations as part of their participation in the IIP.

19 Prior to June 8, 2000, a similar program existed, but some terms and conditions were different.

The financial intermediaries involved in the financial transactions performed on behalf of investor immigrants include trust companies and investment dealers that otherwise also operate an IFC. In addition, some of the financial transactions performed on behalf of investor immigrants by such financial intermediaries are carried out through the IFC operated by such financial intermediaries.

Although certain financial transactions on behalf of investor immigrants may, in some circumstances, constitute QIFTs and, as such, be validly performed by an IFC, other financial transactions, sometimes performed as principal and sometimes performed as an accessory to the financial transactions arising from the IIP, may not constitute QIFTs for the purposes of the existing legislation.

In addition, in the context of the fiscal measures applicable to operators of an IFC, the particular relations among the various parties involved in activities relating to the IIP may also generate a degree of ambiguity as to the exact nature of the income these activities generate when they are carried out by an IFC.

- **July 5, 2001 amendment**

On July 5, 2001, to put an end to the difficulties caused by the uncertainty and ambiguity regarding activities carried out by operators of an IFC under the IIP, an amendment to the tax legislation was announced.[20]

More specifically, it was then announced that the activities of money lending and deposit-taking, fiduciary services, financial arrangements and investment dealer and adviser, carried out by the operator of an IFC before July 5, 2001 with immigrant investors in the course of their participation in the IIP, in its version subsequent to June 8, 2000 and in its earlier version, would constitute, in themselves, QIFTs for the purposes of the fiscal measures regarding IFCs.

The objective of this amendment was to prevent, because of a misunderstanding of the rules applicable to the fiscal measures relating to IFCs, financial intermediaries that, prior to the date of this announcement, had carried out through an IFC, financial transactions on behalf of participants in the IIP, from losing the benefits associated with the qualification of a given activity as a QIFT.

However, considering that the rules otherwise applicable to the measures relating to IFCs were sufficiently precise to distinguish, from among the activities carried out under the IIP, those that qualify as a QIFT from those that do not, no amendment designed to afford particular treatment to the activities carried out by operators of an IFC under the IIP, after July 4, was made to the tax legislation at that time.

20 Ministère des Finances du Québec Bulletin d'information 2001-6.

- **Recognition of activities performed under the Immigrant Investor Program for assistance to businesses as qualified international financial transactions**

Following representations made by operators of IFCs active under the IIP, it became apparent that the rules currently applicable under the measures relating to IFCs do not make it possible to distinguish with certainty, from among the activities carried out under the IIP, those that qualify as QIFTs from those that do not.

On the other hand, it also became apparent in the course of these representations that recognition, for the purposes of the measures relating to IFCs, of the activities performed under the IIP would favour the development, in Montréal, of specialized expertise in the field of international financial transactions.

Consequently, the tax legislation relating to IFCs will be amended to clarify the status of activities performed by operators of IFCs under the IIP.

More specifically, the legislation will be amended so that the activities of deposit-taking, trust services and investment dealer and adviser, carried out by the operator of an IFC with an immigrant investor in the course of his participation in the IIP and which are directly related to the program's requirements, constitute QIFTs.

However, only the fees paid by "IQ Immigrant Investisseur Inc." to the operator of an IFC in accordance with an agreement reached under the IIP between IQ Immigrant Investisseur Inc. and the operator of the IFC, will constitute income from the operations of an IFC.

This amendment will apply to the activities of an operator of an IFC carried out after July 4, 2001.

2.7.2 *Refundable tax credit regarding solicitation expenditures of international financial centres*

In general, the refundable tax credit for IFC solicitation expenses covers eligible solicitation expenditures incurred by the operator of an IFC, namely a corporation or a partnership, in the course of carrying on the business or portion of the business recognized as an IFC, and relating to solicitation activities carried on with persons who are not residents of Canada.

More specifically, this tax credit, for a taxation year, is equal to 50% of the eligible solicitation expenditures incurred during such taxation year and the two preceding taxation years. However, the maximum amount of the tax credit, for a given taxation year, is limited to an amount equal to 25% of the eligible fees earned from carrying out new QIFTs, without exceeding $75 000 calculated on an annual basis.

According to the existing legislation, to constitute an eligible solicitation expenditure, an expenditure must, in particular, be related to a solicitation activity that the corporation or partnership carried out, through one of its employees, with a person who is not a resident of Canada.

If an IFC is operated by a partnership some of whose members are individuals, these members may themselves carry out, for the benefit of the IFC, solicitation activities covered by the fiscal policy underlying this tax credit.

However, because an individual who is a member of a partnership is not an employee of such partnership, the expenditure relating to the solicitation activities of such a member carried out with a person who is not a resident of Canada, for the benefit of the partnership of which he is a member, may not, according to the existing legislation, be allowed as an eligible solicitation expenditure for the purposes of the tax credit.

To correct this situation and maintain neutrality regarding the business operating method selected by the operator of an IFC, the legislation will be adjusted.

More specifically, the legislation will be amended to allow as an eligible solicitation expenditure, according to the same terms and conditions as those that currently apply, an expenditure relating to a solicitation activity that a partnership carries out, through one of its members who is an eligible partner, with a person who is not a resident of Canada. Accordingly, henceforth uniform treatment will apply regarding this type of expenditure, whether it was incurred by an employee or by an eligible partner of a partnership.

For the purposes of this adjustment, an "eligible partner" means a member of a partnership who is an individual and who, were it not for his status as a member of the partnership, could have been considered as an employee of the partnership covered by any of sections 14, 15 or 16 of the *Act respecting international financial centres*.

In the latter regard, the MRQ may consult the ministère des Finances to determine whether a member of a partnership is an eligible partner of a partnership. For greater clarity, only the information needed by the ministère des Finances to determine whether a member of a partnership is an eligible partner will be forwarded to the MRQ, in order to preserve the otherwise confidential nature of the information obtain by the MRQ in the course of applying a tax law.

The application of this adjustment will be declaratory.

2.7.3 Refundable tax credit for communications between corporations and investors

A corporation that has a class of its shares listed on an exchange and which wishes to obtain financing by means of a public offering or to disclose the details of a major development that may affect the value of its stock, must be in a position to communicate effectively with financial market professionals and investors. One of the preferred methods used by corporations for such purposes involves organizing a promotional tour or road show affording direct and preferential contact between the corporation and investors.

To encourage Québec corporations to participate more actively in this type of activity, tax assistance is granted to corporations that, briefly, have a market capitalization of or whose assets are valued at less than $1 billion, and more than 50% of salaries paid to its employees were paid to employees of an establishment located in Québec.

Briefly, this tax assistance covers expenditures incurred by an eligible corporation in the course of road shows staged for financial market professionals and investors. In this regard, a corporation must obtain an eligibility certificate from the Minister of Finance, for a taxation year, certifying that at some point during such year, a class of shares of its capital stock is listed on a recognized exchange or is in the process of being listed.

More particularly, such tax assistance consists of a refundable tax credit of 40% and is granted, for a taxation year, to an eligible corporation that, during such year, incurs eligible communications expenditures, such as travel and lodging expenses, expenses for the rental of rooms and equipment, for the preparation of material or advertising, as well as consultants' fees, in relation to an eligible road show. The maximum amount of the tax credit an eligible corporation may receive, for a taxation year, is limited to $40 000, calculated on an annual basis.

Some corporations, because of the particular nature of their activities, in the case of mining exploration for instance, may not pay any salaries during a taxation year, or pay a relatively small amount of salary.

In such cases, the criterion regarding a corporation's attachment to Québec that is currently used, namely the relative amount of salaries paid in Québec during a taxation year, may not apply, when there is no payroll for instance, or not be representative of a corporation's true attachment to Québec, for instance when payroll is negligible or does not reflect the corporation's activities.

In this context, the Minister of Finance, in the course of examining a corporation's eligibility certificate application, will henceforth study the relative strength of such corporation's attachment to Québec. More specifically, the Minister of Finance may, if the criterion relating to payroll is inapplicable or not representative of the corporation's attachment to Québec, nonetheless issue an eligibility certificate if she considers that the corporation's attachment to Québec is otherwise sufficiently strong. Similarly, the Minister of Finance may, under the same circumstances, refuse to issue an eligibility certificate if she considers that such attachment is not sufficiently strong. To that end, the Minister of Finance may in particular consider the corporation's principal place of business and, if need be, the place where its investment projects are carried out.

In addition, the Minister of Finance may also revoke a previously issued eligibility certificate if she considers that a corporation's attachment to Québec is insufficient, even if such corporation satisfies the other eligibility conditions for the tax credit, in particular concerning the relative amount of salarires paid in Québec during a taxation year.

These changes will apply as of the day following the day of the Supplement to the Government's Budgetary Policy.

2.7.4 Support for independent financial derivatives traders

The Montréal Exchange restructured its activities during 2001. The purpose of this restructuring was, among other things, to transfer open outcry, i.e. from the floor of the Montréal Exchange, trading of financial derivatives (FDs) to an entirely electronic trading platform accessible from terminals installed in the offices of participants in this market.

On April 9, 2001, to prevent the market for FDs listed on the Montréal Exchange from losing any of its vitality and liquidity during the transitional phase leading to the fully electronic platform, a temporary tax measure in support of independent traders of FDs listed on the Montréal Exchange was introduced to encourage their migration from open-outcry trading to electronic trading.[21]

Briefly, this measure consists of a deduction in calculating the taxable income of an eligible taxpayer, for a taxation year, in relation to the portion of his income attributable, for such year, to eligible activities relating to eligible FDs he carried out during such year. However, this deduction is limited to an amount of $200 000 per year.

According to the existing legislation, this support measure applies regarding the income of an eligible taxpayer attributable to eligible activities carried out after December 31, 2000 and before January 1, 2004.

21 Ministère des Finances du Québec Bulletin d'information 2001-3.

Because of difficulties relating to the organization of the activities of eligible independent FD traders, most of them were unable to structure their eligible activities before July 2001, thus losing the benefit of this measure for a period of six months.

Accordingly, to grant independent traders the entire assistance that had been stipulated for them when this support measure was introduced, i.e. temporary assistance for three years, the tax legislation will be amended to extend the application of this measure for six months.

More specifically, the application period of the tax measure in support of independent traders of FDs will be changed to apply regarding the income of an eligible taxpayer attributable to eligible activities carried out after December 31, 2000 and before July 1, 2004.

However, the maximum cumulative amount an independent trader may receive under this deduction may not exceed $600 000.

2.8 Technical changes

2.8.1 Clarification concerning the deferral of tax on certain rebates from cooperatives

On February 21, 2002 the government supported the efforts of Québec cooperatives to increase their capitalization by introducing a mechanism for the deferral of taxation of an eligible rebate received by a member of an eligible cooperative.[22]

Briefly, a taxpayer who is a member of an eligible cooperative during a taxation year of such cooperative and who receives an eligible rebate consisting of a preferred unit during a taxation year may claim a deduction in calculating his taxable income, for such taxation year (deduction for eligible rebate). The taxpayer may then defer the tax on the value of such preferred unit until the time of its alienation.

To enable a member to claim the deduction for an eligible rebate, a cooperative must hold an eligibility certificate from the ministère de l'Industrie et du Commerce (MIC).

More specifically, an eligible cooperative means, in particular, a cooperative whose capitalization rate at the end of its fiscal year ended before the taxation year regarding which it applies for an eligibility certification is no more than 50%. For the purposes of this criterion, the capitalization rate means the proportion represented by the total equity over total assets, calculated in accordance with generally accepted accounting principles using the audited financial statements of the cooperative.

22 Ministère des Finances du Québec Bulletin d'information 2002-2.

To ensure that the capitalization rate of a cooperative reflects the capitalization resulting from the attribution of the preferred units regarding which a deduction for an eligible rebate has been allowed, the financial statements of a cooperative must included, in the "members' equity" item, the amount of preferred units issued by the cooperative.

Consequently, the amount of a cooperative's equity that will be included in the determination of its capitalization rate for its fiscal year ending before the taxation year for which it applies for an eligibility certification will include the amount of preferred units such cooperative has issued.

For greater clarity, the amount of preferred units issued by a cooperative will include the amount of preferred units it has attributed, whether or not they were attributed in the form of an eligible rebate.

This change will apply to applications for eligibility certification of cooperatives filed with the MIC after February 21, 2002.

2.8.2 Clarification concerning the refundable tax credit for the production of multimedia titles

The refundable tax credit for the production of multimedia titles was introduced in the May 9, 1996 Budget Speech and has since been adjusted many times to adapt it to this constantly changing sector.

Briefly, this tax credit applies to multimedia titles produced for commercial use, including those produced to order. The titles must be published on electronic media, be controlled by software that allows interactivity and include an appreciable volume of three of the following four types of information: text, sound, static images and animated images. In addition, these titles must either be intended for mass distribution on the consumer market or made accessible to the general public through communications networks.

In addition, a corporation that wishes to benefit from this tax credit must obtain the required certifications from Investissement Québec.

In some situations, the specific features of a multimedia title, because of its target clientele, result in its not including an appreciable volume of three of the four types of information. This may be the case with a multimedia title that would otherwise be eligible and intended to assist in the training of individuals suffering from a visual handicap, for instance.

In the past, Investissement Québec has nonetheless, through administrative practice, issued the required certificates regarding certain multimedia titles that did not include an appreciable volume of three of the four types of information. More specifically, Investissement Québec has deviated from this general application criterion only when the reason why it was not satisfied was attributable to the fact that the clientele for which the multimedia title was intended suffered from a handicap.

In this context, it is appropriate to confirm that this administrative practice adopted by Investissement Québec in this type of situation corresponds perfectly with fiscal policy. Accordingly, Investissement Québec may, in certain circumstances, issue the various certificates required regarding a multimedia title even if it does not include an appreciable volume of three of the four types of information required. However, such situations will be limited to a multimedia title that otherwise satisfies all the other eligibility criteria, but does not satisfy the criterion regarding an appreciable volume of three of the four types of information required solely because of the fact that the clientele for which the multimedia title is intended suffers from a handicap.

2.8.3 Streamlining of the notion of associated corporation for the purposes of various refundable tax credits

For a number of years, refundable tax credits have been used on many occasions to develop certain economic sectors and stimulate job creation.

More specifically, some of these refundable tax credits are granted with respect to the increase in payroll attributable to eligible employees of an eligible corporation operating in the eligible region or in the designated site covered by these tax credits.

In such situations, an eligible corporation must, to determine its refundable tax credit for a given calendar year, compare the payroll for such given calendar year with that of its reference calendar year. However, the existence of an increase in payroll attributable to eligible employees of an establishment located in an eligible region or in a designated site, for a calendar year, is determined on a consolidated basis, by considering the attributes of each of the corporations associated among themselves at the end of such calendar year.

To to determine whether corporations are associated with each other, the tax legislation stipulates, subject to certain exemptions, that a person holding an option to acquire shares of a corporation or the right to require a corporation to buy back shares owned by other persons is treated as if the option or right had been exercised.

In the case where a public corporation holds such an option or such a right in regard to shares of the capital stock of a given corporation, it is not really in a position to exercise the voting rights attached to such shares. Such option or right does not allow the public corporation to become directly involved in the management of the given corporation, but rather is designed to protect the interests of the public corporation in regard to the given corporation.

Like the change made to the tax credit for e-business activities carried out in certain designated sites, the application details of the refundable tax credits based on the increase in payroll will be changed so that, for the purposes of these tax credits, an eligible corporation, otherwise deemed to be associated with a public corporation, is not deemed to be associated with such a corporation if such association results either from an option to acquire shares of the eligible corporation or of a corporation associated with it, or from a right to require the eligible corporation or a corporation associated with it to buy back shares of its capital stock owned by other persons, conferred on the public corporation.

This change will apply as of calendar year 2001, to the following refundable tax credits:

— the tax credit for job creation in the optics industry in the Québec City region;

— the tax credit for job creation in the manufacturing or environmental sector in the Technopôle Angus;

— the tax credit for job creation in the aluminum industry in the Saguenay–Lac-Saint-Jean region;

— the tax credit for job creation in Gaspésie and certain maritime regions of Québec;

— the tax credit for job creation in the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain;

— the tax credit for processing activities in resource regions.

2.8.4 Adjustment to tax assistance relating to E-Commerce Place

E-Commerce Place, located in downtown Montréal, consists of buildings to be constructed on land bounded by de la Montagne, Saint-Antoine and Lucien-L'Allier streets as well as René-Lévesque boulevard.

Briefly, the tax assistance an eligible corporation that moves into E-Commerce Place can claim consists of a refundable tax credit of 35% on the eligible salary, incurred no later than December 31, 2013, and paid to its eligible employees to carry out eligible activities, as well as a five-year tax holiday for foreign experts it employs.

The amount of the tax credit an eligible corporation may receive, for a taxation year, regarding the eligible salary paid to an eligible employee for such year is however limited to $12 500 per eligible employee.

Lastly, the rate of this tax credit is reduced, as of the sixth year of operation of an eligible corporation in E-Commerce Place, if the eligible corporation has not created a minimum number of jobs in Québec.

❑ Introduction of an election

To further sustain job creation in the field of e-commerce development and operation, accelerate the development of E-Commerce Place and promote foreign investment in Québec, the method of payment of this tax assistance may be changed, if the eligible corporation so elects.

Accordingly, an eligible corporation may henceforth elect to receive either the existing refundable tax credit or a refundable credit of employer contributions to the HSF.

More specifically, an eligible corporation may, independently for each taxation year, make an irrevocable election at the time of its initial claim of such tax assistance for a taxation year, to receive a refundable credit of the employer contributions to the HSF rather than a refundable tax credit. However, an eligible corporation may not make such an election before filing its tax return for such taxation year or more than twelve months after the filing deadline applicable to it for such taxation year.

Furthermore, such an election, for a taxation year, must cover the entire tax assistance the eligible corporation may receive for such year. Accordingly, an eligible corporation established in E-Commerce Place may not receive both a refundable tax credit and a refundable credit of the employer contributions to the HSF for the same taxation year.

❑ Clarifications

For greater clarity, no change will be made to the calculation details of the tax assistance an eligible corporation that moves into E-Commerce Place may receive. Accordingly, the amount of such tax assistance will be determined according to the same rules, regardless of whether the eligible corporation elected to receive a refundable tax credit or a refundable credit for the employer contributions to the HSF.

Furthermore, the amount determined under these rules and which is covered by an election by an eligible corporation will be deemed to be a payment made by such corporation under the *Act respecting the Régie de l'assurance maladie du Québec*, to be applied to the employer contribution to the HSF payable by such eligible corporation. Such payment will be deemed to have been made on the date the eligible corporation makes the irrevocable election.

Lastly, such payment will be deemed to have been made regarding the calendar year in which such election is made. However, it may be deemed to have been made regarding the calendar year preceding the calendar year in which such election is made if it is made during the months of January or February following such calendar year. Accordingly, in the case where such an election is made during the months of January or February, the corporation must indicate whether the payment is to be deemed made regarding the calendar year in which the election is made or regarding the preceding calendar year.

❑ Application date

The option of making an election to receive a refundable credit for the employer contributions to the HSF will apply regarding taxation years of an eligible corporation ending after the day of the Supplement to the Government's Budgetary Policy.

3. HARMONIZATION WITH FEDERAL MEASURES RELATING TO BEVERAGE CONTAINER DEPOSITS

On February 8, 2002, the Secretary of State for International Financial Institutions, on behalf of the Minister of Finance of Canada, issued, in a news release,[23] a detailed Notice of Ways and Means Motion proposing amendments to the *Excise Tax Act* concerning the treatment of the deposit on beverage containers under the goods and services tax (GST) and the harmonized sales tax system.

In accordance with the principle of substantial harmonization of the Québec sales tax (QST) and GST systems, Québec's tax system will generally be harmonized with the federal tax system in this regard, subject to Québec's specific features and taking the provincial context into account.

The changes to the QST system will be adopted only after the approval of any federal law arising from this Notice of Ways and Means Motion, taking into account technical amendments that might be made prior to the approval, and they will apply on the same dates as for the purposes of the GST system.

23 Department of Finance Canada news release 2002-014.

APPENDIX

CADASTRAL DESCRIPTION

TECHNICAL DESCRIPTION OF CERTAIN PARTS OF THE TERRITORIAL LIMITS OF THE TECHNOPARC SAINT-LAURENT

CADASTRE : OF QUÉBEC

REGISTRATION DIVISION : MONTRÉAL

MUNICIPALITY : VILLE DE SAINT-LAURENT

LOTS AND PART OF LOT:

1 163 768	1 163 769	1 163 771	1 163 772	1 163 773	1 163 774	1 163 775
1 163 776	1 163 777	1 163 778	1 163 779	1 163 781	1 163 782	1 163 783
1 163 784	1 163 785	1 163 786	1 163 787	1 163 790	1 163 792	1 163 793
1 163 794	1 163 795	1 163 796	1 163 797	1 163 798	1 163 800	1 163 803
1 163 804	1 163 806	1 163 807	1 163 812	1 163 814	1 163 817	1 163 820
1 163 822	1 163 825	1 163 827	1 163 828	1 163 830	1 163 831	1 163 836
1 163 840	1 163 842	1 163 847	1 163 848	1 164 021	1 164 022	1 164 023
1 164 024	1 164 025	1 164 026	1 164 027	1 164 028	1 164 029	1 164 030
1 164 031	1 164 032	1 164 033	1 164 034	1 164 035	1 164 036	1 164 037
1 164 038	1 164 039	1 164 040	1 164 041	1 165 490	1 165 578	1 165 581
1 165 582	1 165 583	1 165 609	1 165 610	1 165 611	1 165 618	1 165 619
1 165 620	1 165 621	1 165 622	1 165 623	1 165 624	1 165 625	1 336 717
1 336 719	1 336 720	1 336 721	1 336 722	1 336 723	1 336 724	1 336 725
1 336 726	1 336 727	1 336 728	1 336 729	1 336 730	1 336 731	1 336 732
1 336 733	1 336 734	1 336 735	1 336 736	1 336 737	1 508 366	1 508 367
1 508 368	1 508 369	1 508 370	1 508 371	and part of lot 1 164 020		

Part of lot ONE MILLION ONE HUNDRED AND SIXTY-FOUR THOUSAND TWENTY (P.1164020) of the said cadastre, of irregular shape, bounded to the Northwest, for an initial portion, by the municipality of the Cité de Dorval located in the cadastre of the Paroisse de Pointe-Claire and measuring on such limit 264.99 metres; to the Northeast, for an initial portion, by lot 1163794 and measuring on such limit 166.31 metres; to the Northwest, for a second portion, by lots 1163794, 1163776, 1163795 and 1163782 and measuring on such limit 228.46 metres; to the Northeast, for a second portion, by lots 1163782 and 1163804 and measuring on such limit 662.14 metres; to the Northwest, for a third portion, by lot 1163804 and measuring on such limit 762.23 metres; to the Northeast, for a third portion, by lots 1164022, 1164024, 1164026 and 1164025 and measuring on such limit 240.85 metres; to the Southeast by another portion of the said lot 1164020 and measuring on such limit 1 514.00 metres; to the Southwest, for an initial portion, by the municipality of the Cité de Dorval located in the cadastre of the Paroisse de Pointe-Claire and measuring on such limit 244.00 metres; to the Northwest, for a fourth portion, by the municipality of the Cité de Dorval located in the cadastre of the Paroisse de Pointe-Claire and measuring on such limit 46.89 metres; to the Southwest, for a second portion, by the municipality of the Cité de Dorval located in the cadastre of the Paroisse de Pointe-Claire and measuring on such limit 853.08 metres; forming a surface area of 824 147.00 square metres.

CADASTRAL DESCRIPTION

PARC TECHNOLOGIQUE DU QUÉBEC MÉTROPOLITAIN

CADASTRE	:	OF QUÉBEC
REGISTRATION DIVISION	:	QUÉBEC
MUNICIPALITY	:	VILLE DE QUÉBEC

THE PARC TECHNOLOGIQUE DU QUÉBEC MÉTROPOLITAIN CONSISTS OF THE FOLLOWING LOTS OR PARTS OF LOTS:

1 309 553	1 312 993	1 896 270	1 533 660	1 533 672
1 612 994	1 309 552	1 619 661	1 533 657	2 295 376
1 309 556	1 898 266	2 508 023	1 619 660	2 295 378
1 309 558	1 309 557	1 619 622	2 431 032	1 533 675
1 309 559	1 898 267	1 533 010	1 533 662	1 533 676
1 313 369	1 312 991	1 896 271	2 431 033	1 619 609
1 309 560	1 898 269	1 533 007	1 533 667	1 619 664
1 312 989	1 313 160	1 533 003	1 533 665	1 917 764
1 528 928	1 898 268	1 533 009	1 917 790	1 917 765
1 313 448	1 312 996	1 619 569	1 917 759	1 533 993
2 218 302	1 312 997	1 533 005	1 917 789	1 533 994
2 355 447	1 619 674	1 313 049	1 917 760	1 619 662
2 355 448	2 218 299	1 533 004	1 533 666	1 619 726
1 917 766	2 218 300	1 532 994	1 533 670	1 534 005
1 528 926	2 555 782	2 340 403	2 294 754	1 738 406
1 534 265	2 501 073	1 533 011	1 533 671	1 737 348
2 218 303	2 555 783	1 917 763	2 431 034	1 737 488
2 218 304	2 501 074	1 619 571	2 295 377	1 737 906
1 312 992	1 309 548	1 619 739	1 917 791	1 737 907
1 313 449	1 309 608	1 619 738	2 437 171	2 436 179
1 309 551	1 309 549	1 533 658	1 619 607	2 340 402
2 218 298	2 508 024	1 619 661	1 917 761	
1 534 264	1 313 155	1 533 659	1 619 658	

Section 2

Expenditure Measures

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1. FIGHT AGAINST POVERTY

1.1 Automatic annual indexation of social assistance benefits

To maintain the purchasing power of social assistance recipients, the benefits paid under the Employment-Assistance Program will be automatically indexed each year beginning January 1, 2003. All benefits paid under the program will be indexed, including those paid to persons who do not have a severely limited capacity for employment. Households receiving employment assistance (currently almost 360 000) will see their monthly benefit go up on January 1 of each year to offset the cost-of-living increase.

The indexation rate used will be the same as that used for the personal income tax system and related tax credits, i.e. the rate based on growth in the Québec consumer price index for the 12-month period ending September 30 of the previous year. This rate will also be used to index the benefit paid to persons in residential care who are eligible for employment assistance.

In order to provide this financial support to persons who do not have a severely limited capacity for employment, the ministère de la Solidarité sociale will receive $5 million for 2002-2003 and $26 million for 2003-2004. To assist persons with a severely limited capacity for employment, $3 million in 2002-2003 and $20 million in 2003-2004 have already been taken into account in the budget of the ministère de la Solidarité sociale.

1.2 Elimination of the penalty for sharing a dwelling

As of January 1, 2003, the benefit paid to social assistance recipients who share a dwelling with another adult will increase by up to $50 per month. This increase stems from the repeal of the shared-dwelling provision of the Employment-Assistance Program. This measure will not affect recipients who already benefit from this provision, such as adults with severe employment constraints and single-parent families.

Over 60 000 households could see their monthly benefit increase as a result of this measure.

To finance the measure, the appropriations of the ministère de la Solidarité sociale will be increased by $7 million in 2002-2003 and $36 million per year beginning in 2003-2004.

1.3 Elimination of the penalty for low housing costs

As of January 1, 2003, all social assistance recipients will receive the full amount for housing costs, even if their lodging expenses are less than the amount determined by regulation. This increase stems from the termination of the reduction in the basic benefit for lodging costs under the Employment-Assistance Program.

Over 21 000 households, independent adults or families, will see their monthly benefit go up.

To finance this measure, the appropriations of the ministère de la Solidarité sociale will be increased by $4 million in 2002-2003 and $16 million per year beginning in 2003-2004.

1.4 Support to foster community action

In July 2001, the government adopted the *Policy on the Recognition and Support of Community Action* to support the activities of community organizations. In September 2001, the government announced it would be injecting $50 million over three years for that purpose.

The policy aims to, among other things, review the funding of community organizations so as to fully recognize their role in our social and economic development and ensure greater harmonization of funding mechanisms.

To further support community action, additional funding of $20 million per year in 2002-2003 and 2003-2004 will be allocated to ensure the policy's implementation. These amounts are in addition to the $10 million allocated for 2001-2002.

1.5 New support program for collectively laid-off workers in the resource regions

To guard against the possibility of a collective layoff in Québec's resource regions, the government will introduce a new income support program for affected workers.

This new program will help stem the exodus from these regions of skilled workers who have lost their jobs following a plant closure by offering them temporary financial assistance until the plant reopens or they find other work in the region. The program is modelled on the measure implemented in 1999 to assist workers affected by the closure of the Gaspésia mill in Chandler.

As soon as their Employment Insurance runs out, laid-off workers and their families will receive social assistance benefits without having to spend their savings or dispose of their assets:

— The benefit paid to an adult and his family will not take into account their liquid assets or the value of their property;

— The benefit paid will not take into account certain types of income, such as severance pay.

The Minister of State for Social Solidarity and Child and Family Welfare and the Minister for the Elimination of Poverty and Exclusion will be announcing the details of this measure.

The appropriations of the ministère de la Solidarité sociale will be increased by $2 million per year beginning in 2002-2003.

2. SUPPORT FOR REGIONAL ECONOMIES

2.1 Additional support for the Gaspésie–Îles-de-la-Madeleine recovery plan

Some of the action taken under the Gaspésie–Îles-de-la-Madeleine recovery plan has been more successful than anticipated. We therefore need to renew this action in order to pursue the economic diversification, tourism development and employment support initiatives of recent years.

For that purpose, the government is increasing the funding for the Gaspésie–Îles-de-la-Madeleine recovery plan by $5 million in 2002-2003 and $3 million in 2003-2004.

More specifically, the budget envelope of the Fonds de diversification économique will be increased by $1.5 million in 2002-2003 and $1.5 million in 2003-2004. That of the Fonds de développement touristique de la Gaspésie–Îles-de-la-Madeleine will be increased by $1.5 million in 2002-2003 and $1.5 million in 2003-2004. Finally, $2 million will be injected into the Fonds de création d'emplois municipaux in 2002-2003.

3. STRENGTHENING THE SHIFT TO THE NEW ECONOMY

3.1 Support for the capitalization of biotechnology companies

Bio-Levier capitalization loan

The government is introducing the Bio-Levier loan program to support the capitalization efforts of Québec biotechnology companies. The goal of this measure is to make it easier for growing young biotechnology companies to obtain financing. Once past the start-up phase, these companies generally find it difficult to obtain sufficient funding to carry them through to the commercialization phase.

The program aims to match the contribution of outside investors with government assistance in the form of an equity loan. The leverage effect obtained by this financing will enable targeted companies to get more investors to commit financially to this growth area of the Québec economy.

Biotechnology companies with insufficient capitalization will be eligible for a loan matching the amount raised by outside investors, on the condition that they:

— obtain at least $7 million in capital funding;

— obtain at least 20% of that funding outside Québec.

Should the funding obtained outside Québec be less than 20%, the loan will be equivalent to 25% of the funds raised.

The financial assistance granted by the government, which shall not exceed $20 million per project, will include a three-year moratorium on capital repayment, during which time the interest will be capitalized. In return, the government will share in the company's profits.

The new program will receive a loan envelope of $100 million, available as of fiscal 2002-2003. The $25 million in budgetary appropriations required to implement this measure will be financed out of the envelope of the FAIRE program. The Bio-Levier loan program will be administered by Investissement Québec.

3.2 Support for biotechnology infrastructures

To further support the development of biotechnology companies, the government has announced fiscal measures to help companies that initiate innovative biotechnology projects.

These measures will benefit companies that set up business in a biotechnology development centre in Laval, Sherbrooke or St-Hyacinthe. These centres have the specific facilities required by biotechnology companies. They will be set up on sites that already house major research infrastructures such as hospitals, university research institutes or universities.

To accelerate the construction of these centres, the government will introduce a rental income guarantee program to temporarily reduce the risk of financial losses faced by real estate developers who decide to build such a facility.

Budgetary appropriations of $2 million will be allocated to this new program, which will be administered by Investissement Québec, as of 2002-2003.

3.3 Cité de l'optique de Québec

The 1999-2000 Budget Speech announced the creation of a program to support the development of the Cité de l'optique de Québec. Thanks to this program, the optics sector has developed rapidly in the Québec City area, with the number of jobs in local businesses and research centres climbing from 1 300 in 1999 to over 2 000 today.

The commercialization component of the program and the associated promotion and prospecting activities are designed to support the industry's development and the marketing of new products and processes. To ensure these efforts continue, a budget envelope of $1.5 million per year for the next three years will be allocated to these activities, which are administered by the ministère de l'Industrie et du Commerce.

3.4 Support for technology showcases

The Technology Showcase Assistance Program of the ministère de l'Industrie et du Commerce was created in July 1998 to support innovative SMEs at a crucial stage of their development. The program provides SMEs with financial assistance to enable the demonstration, in real time operation, of innovative products and processes they have developed. The assistance is offered after the research and development phase, i.e. at the stage when SMEs often lack the funding needed to market their innovations.

Support for pioneering SMEs entering the commercial phase is crucial to business development and job creation. To enable these activities to

continue, an additional $15 million is being committed to the Technology Showcase Assistance Program.

Appropriations of $3 million in 2002-2003, $8.2 million in 2003-2004 and $3.8 million in 2004-2005 have been earmarked for that purpose.

4. MODERNIZATION OF THE FINANCIAL SECTOR'S OPERATION

4.1 Creation of the Agence nationale d'encadrement du secteur financier

In December 2001, the task force on financial sector regulation, chaired by Yvon Martineau, tabled a report unanimously recommending the creation of a financial sector regulation agency. Acting on that recommendation, the government proposes to create the Agence nationale d'encadrement du secteur financier.

If the related legislation is adopted, the ministère des Finances will receive funding in the amount of $3 million in 2002-3003 for transitional activities and the creation of the new agency. The necessary funding will be drawn from the contingency fund.

Section 3

Financial Impact of the Fiscal and Budgetary Measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES

(in millions of dollars)

	Financial impact for the government		
	2001-2002	2002-2003	2003-2004
A. REVENUE MEASURES			
1. Measures to make the personal income tax system fairer			
Transfer of the full amount of non-refundable tax credits from one spouse to the other	—	—	– 9.0
Increased possibility of taking advantage of the following deductions and non-refundable tax credits:			
– Deduction for support payments	—	—	– 1.0
– Deductions for residents of designated remote areas	—	—	– 1.0
– Tax credits for medical care	—	—	– 5.0
– Other deductions and tax credits	—	—	– 1.0
Sub-total	—	—	**– 17.0**
2. Measures concerning businesses			
Fiscal measures relating to biotechnology	—	—	– 4.5
Fiscal measures relating to innovation centres	—	—	– 5.5
Sub-total	—	—	**– 10.0**
TOTAL IMPACT OF REVENUE MEASURES	—	—	**– 27.0**

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES (cont'd)

(in millions of dollars)

	Financial impact for the government		
	2001-2002	2002-2003	2003-2004
B. EXPENDITURE MEASURES			
1. Fight against poverty			
Automatic annual indexation of social assistance benefits for persons able to work	—	– 5.0	– 26.0
Elimination of the penalty for sharing a dwelling	—	– 7.0	– 36.0
Elimination of the penalty for low housing costs	—	– 4.0	– 16.0
Support to foster community action	—	– 20.0	– 20.0
Support for collectively laid-off workers in the resource regions	—	– 2.0	– 2.0
Sub-total	**—**	**– 38.0**	**– 100.0**
2. Support for regional economies			
Additional support for the Gaspésie–Îles-de-la-Madeleine recovery plan	—	– 5.0	– 3.0
Sub-total	**—**	**– 5.0**	**– 3.0**
3. Strengthening the shift to the new economy			
Support for the capitalization of biotechnology companies (Bio-Levier)	—	– 25.0	—
Support for biotechnology infrastructures	—	– 2.0	– 2.0
Cité de l'optique de Québec	—	– 1.5	– 1.5
Support for technology showcases	—	– 3.0	– 8.2
Sub-total	**—**	**– 31.5**	**– 11.7**
4. Modernization of the financial sector's operation			
Creation of the Agence nationale d'encadrement du secteur financier	—	– 3.0	—
Sub-total	**—**	**– 3.0**	**—**
TOTAL IMPACT OF EXPENDITURE MEASURES[1]	**—**	**– 77.5**	**– 114.7**
TOTAL IMPACT OF REVENUE MEASURES	**—**	**—**	**– 27.0**
TOTAL IMPACT OF FISCAL AND BUDGETARY MEASURES	**—**	**– 77.5**	**– 141.7**

Note: A negative entry means a cost for the government.

1 The funding required for 2002-2003 will be drawn from the contingency fund, except for the support program for the capitalization of biotechnology companies (Bio-Lévier), which will be financed out of the envelope of the FAIRE program.